

# *Nordic Journal of Business*

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# Nordic Journal of Business

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# Editor's Letter

The current issue of the *Nordic Journal of Business* includes three peer-reviewed articles. In the first article, Börje Boers, Thomas Henschel and Maria Stellmacher focus on turnaround strategies in family firms from a socioemotional wealth perspective. The second article by Jonna Koponen, Essi Heikkilä, Sari-Johanna Karhapää, Mirjami Ikonen and Esa Hiltunen examines millennial business students' perceptions of the competence needed by leaders in the digital age of the future. Finally, the third article by Timo Hyvönen, Lauri Lepistö and Sanni Mäki investigates the current state and usage of data analytics in financial forecasting.

I hope you enjoy reading the interesting articles included in this issue of the *Nordic Journal of Business*.

**Sami Vähämaa**

Editor

Nordic Journal of Business

# *Turning Around the Family and the Business? Examples of Turnaround Strategies from Germany, Scotland, and Sweden*

**Börje Boers, Thomas Henschel and Maria Stellmacher**

## **Abstract**

The purpose of this study is to understand turnaround strategies in family firms from a socioemotional wealth (SEW) perspective. This study follows a case study approach with four family firms, one from Germany, one from Scotland, and two from Sweden. Data collection builds on combining interviews with data collected from annual reports, homepages, and press clips. First, we contribute to the understanding of turnaround strategies in private family firms. Moreover, the SEW perspective offers new insights into how owning families prioritize the different turnaround strategies in relation to the SEW dimensions. Finally, our study also helps further an understanding of how owning families prioritize the SEW dimensions, by drawing on mixed gambles. These findings are used to develop a framework for explaining how SEW influences organizational decline and turnaround in private family firms. Finally, we develop propositions that future research could consider.

## **Keywords:**

Turnaround strategies, Family firms, SEW dimensions, Germany, Scotland, Sweden

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## 1. Introduction

Family firms are seen as a vibrant and innovative source of new ideas and have been the primary source of new employment growth in many advanced economies (Burns, 2016; Schaper et al., 2008). However, many small and family firms struggle to grow as they had planned (Jarl Borch and Brastad, 2003) or they do not even intend to grow (Achtenhagen et al., 2010). They also encounter difficulties when trying to raise finances; a problem that has increased since the financial crisis (Almus, 2004; Crossan and Henschel, 2012; Herbane, 2010; Bussoli and Marino, 2018) and has now become life-threatening in the current COVID-19 pandemic (Kraus et al., 2020). According to Mayr and Lixl (2019), family firms tend to fail more frequently than companies without family influence. However, academic research in the field of turnaround management in family firms is very limited (Kraus et al., 2013; Mayr and Lixl, 2019).

A turnaround can be defined as a process that consists of several steps addressing a crisis or decline and strategies undertaken to overcome it in the short- and long-term (cf. Pearce and Robbins, 1993; Trahms et al., 2013), which can have external or internal causes (Pearce and Robbins, 1993; Trahms et al., 2013). Pearce and Robbins (1993) suggested a two-stage model consisting of retrenchment and strategic decisions to overcome the decline. Still, studies on decline and turnaround (cf. Pearce and Robbins, 1993; Trahms et al., 2013) usually focus on managers, underestimating the importance of owners in family firms (Dyer, 2003). In family firms, there is the risk of loss of socioemotional endowment (Gomez-Mejia et al., 2011; Llanos-Contreras and Jabri, 2019) since there are differences between family firms (Salvato and Aldrich, 2012; Laffranchini et al., 2018).

There are several gaps in the extant turnaround literature. As Trahms et al. (2013, p. 1297) noted in a recent review, “indeed, what we do not know or what is currently understudied far outweighs what is known about decline and turnaround.” They provided an example: “How do family firms balance the need for survival with socioemotional wealth?” (Trahms et al., 2013, p. 1298). Trahms (2013) pointed also towards issues of governance and leadership in regards to turnaround strategies.

Socioemotional wealth (SEW) is defined as “non-financial aspects of the firm that meet the family’s affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty” (Gomez-Mejia et al., 2007). The socioemotional wealth perspective proposes that non-financial aspects of the family firm are the main point of reference for these firms’ decision-making (Llanos-Contreras and Jabri, 2019). According to Berrone et al. (2012), the SEW concept is of multidimensional nature and covers the following dimensions: family control and influence, identification of family members with the firm, binding social ties, emotional attachment of family members, and renewal of family bonds through dynastic succession. Berrone et al. (2012) labelled these five dimensions with the acronym FIBER. These non-financial priorities can be more or less important, compared to financial considerations, for decision making, depending on the level of vulnerability the family business faces (Gomez-Mejia et al., 2014). Thus, when family firms face an organizational crisis, they need to solve the dilemma of preserving the current wealth and pursuing prospective wealth to turn the business around. To date, it is not clear from the literature how family business owners can solve this dilemma when facing a severe crisis (Llanos-Contreras and Jabri, 2019). Therefore, we agree that it is important to investigate the turnaround process with a particular focus on family ownership (Trahms et al., 2013). Thus, by focusing on private and non-listed family firms and applying a SEW perspective, we will be in a better position to understand turnaround strategies in these types of family firms. Moreover, there is limited knowledge on how and why

owning families prioritize SEW dimensions in a turnaround situation (Llanos-Contreras and Jabri, 2019).

The current study extends prior research in turnaround in family firms by looking into the two stages of the turnaround process in different contexts (Trahms et al., 2013; Kraus et al., 2013; Schoenberg et al., 2013; Cater and Schwab, 2008).

The purpose of this study is to understand turnaround strategies in family firms from a SEW perspective. Specifically, this study seeks to answer the following research question:

How do SEW considerations affect the chosen turnaround strategies?

The present study makes the following contributions. First, our research shows that, after fixing the immediate crisis, firms must take more comprehensive second-stage measures, such as developing a sound governance structure and sustainable risk management in the long run. Moreover, the SEW perspective offers new insights into how owning families prioritize the different turnaround strategies concerning the SEW dimensions. Also, our study helps to further understand how owning families prioritize the SEW dimensions by drawing on mixed gambles. Finally, the paper provides a framework that explains the importance of aligning conflicting priorities as a critical response factor for implementing successful turnaround strategies in family firms.

The paper continues by reviewing the relevant literature and methods before our empirical findings are presented. Then, we discuss our findings and draw conclusions.

## 2. Literature review

As Trahms et al. (2013) pointed out in their systematic literature review on organizational decline and turnaround little is known about what is going on in small firms. When it comes to family firms there are even far more blind spots. Especially, there is a big research gap in terms of chosen turnaround strategies as well as contextual factors and the socio-emotional wealth perspective (SEW) (Kücher & Feldbauer-Durstmüller, 2019). Our literature review is organized along these lines and will form the basis for this paper. The articles discussed focus on the above-mentioned research voids and identify the research implications thereof.

Cater and Schwab (2008) suggested three strategies for managing a turnaround: change in top management, integration of external management expertise, and cost reduction. Besides its generic character, each of these measures can be difficult in the family firm context, as these are developed for large and publicly listed nonfamily firms (Cater and Schwab, 2008; Trahms et al., 2013; Schoenberg et al., 2013). Prior research has indicated that changes could be necessary for declining firms attempting a turnaround; although it might not always occur, due to internal resistance (Barker III et al., 2002). The general management literature suggested a two-stage model for managing turnaround situations (Arogyaswamy et al., 1995). The first stage refers to decline stemming, such as actions taken to address the immediate causes of decline. Hence, a company seeks to employ operational measures such as asset and cost retrenchments and focus on its core activities. The second stage refers to strategies that help the firm recover from the decline. It is entered when the immediate crisis has passed and the financial position has stabilized. As Schoenberg et al. (2013) point out, the second stage is concerned with building the firm for the future. In the following sub-sections, we briefly discuss the definition and meaning of an organizational crisis, followed by the available turnaround strategies and finally combining contextual factors and SEW for the family firms.

### 2.1 Organizational crisis

A crisis can be a result of continued organizational decline or the result of a sudden event that threatens the continued existence of the firm (Cater and Schwab 2008). Moreover, a crisis can be externally or internally induced (Cater and Beal, 2014). Prior research has defined a crisis as “...a low-probability situation with significant consequences for the organization, a high degree of uncertainty, and a sense of decision-making urgency (Cater and Beal, 2014).

A crisis can be a reason for needing to implement a turnaround strategy. However, a crisis can have different causes, for example, internal or external to the firm. Based on the cause, strategies may need to address issues differently (Schoenberg et al., 2013); particularly in a family firm context, where there is not only the internal or external origin of a crisis but also the dimension of the family. As Table 1 shows, some crises can originate inside or outside the organization. Accordingly, the focus of Table 1 is on actors which can be considered an under-researched group in family business research (Nordqvist, 2012). Since different individuals and actors may represent different goals towards the firm (Aparico et al., 2017; Brundin et al., 2014), it is important to consider their roles and different constellations (Nordqvist, 2012) in a crisis situation. In other words, the study is not focusing on other causes of a crisis, e.g., related to changes in the economic structure (Ljungkvist and Boers, 2016), natural disasters (Brewton et al., 2010), or other major external events causing a decline (Trahms et al., 2013; Schoenberg et al., 2013).

Table 1: Causes of crisis in family firms

Cause of crisis	Organizational internal	Organizational external
Family internal	Owner family managers	Owner family members
Family external	Nonfamily organizational members	Organizational stakeholders Hostile takeover

Source: the authors

### 2.2. Turnaround strategies

The turnaround literature remains fragmented (Trahms et al., 2013; Kücher and Feldbauer-Durstmüller, 2019). Prior studies take a decline or crisis as a starting point for their model (cf. Pearce and Robbins, 1993; Trahms et al., 2013), even in dynamic and growing industries (Ndofor et al., 2013). More recent literature talks about three stages: decline, decline stemming, and recovery/failure (O’Kane and Cunningham, 2014; Laffranchini et al., 2018). However, these can be seen as a variation of the two-stage model suggested by Arogyaswamy et al. (1995) and still form a multistage process (cf. Pearce and Robbins, 1993; Trahms et al., 2013). Overall, the different models suggest a sequential approach with more or less detailed intermediate steps.

Schoenberg et al. (2013) conducted a literature review and analysed 22 empirical studies that had investigated business turnarounds in previous recessionary environments. Their literature review revealed a convergence in the findings of the prior studies. In particular, turnaround management is a two-stage process. Turnaround strategies are employed for tackling the immediate crisis; these include cost efficiencies, asset retrenchment, a focus on the firm’s core activities, and long-term so-called accompanying strategies that help make the company fit for the future. Schoenberg et al. (2013) stressed that there is a strong history of quantitative

work aiming to explore the determinants of successful turnarounds, but more qualitative studies with a focus on the accompanying strategies such as leadership and governance aspects are required. As Trahms et al. (2013) pointed out as well, more research is needed regarding the role sound governance structures can play in turnaround. The research should focus on how absent or ineffective governance mechanisms can exacerbate the severity of decline (Trahms et al., 2013; Courtemanche et al., 2013; Lai and Sudarsanam, 1997). The leadership and governance issue is a multidimensional concept. On one hand, it covers organizational aspects such as the composition and duties of board members (Crossan et al., 2018) and their interplay with sub-committees (Spielmann, 2012). On the other hand, governance is concerned with the management control systems in a firm (Quinn et al., 2018). Here, risk management has become an important enabler for developing the governance in small firms and making them more crisis-resilient in the long run (Brustbauer and Peters, 2013; Hiebl et al., 2019). Latest research has shown that in family firms, socioemotional wealth considerations can drive firms into decline as well as help them for turnaround (Llanos-Contreras and Jabri, 2019).

### *2.2.1. Change in top management*

The literature has identified three short-term strategies to respond to a critical situation: changes in the top management team (TMT), external advice, and retrenchment (Cater & Schwab, 2008; Trahms, et al., 2013). However, family firms may act differently when the socioemotional endowment is endangered by these strategies (Gómez-Mejía, et al., 2007). Accordingly, retrenchment measures are frequently the first step in any turnaround strategies, and when things improve the company concentrates on TMT changes and self-renewal.

### *2.2.2. Integration of external management expertise and advice*

Integrating external management expertise and advice is often considered an important factor for making the turnaround process a success in family firms (Cater and Schwab, 2008; Dyer, 1989). External management, in this context, means integrating nonfamily managers to help the owner family to better understand or even recognize the crisis and to help them work out a sound turnaround strategy (Dyer, 1989). Bringing in non-family members is also seen as a way towards the professionalization of family firms (Hiebl et al., 2019). There is, however, some doubt whether external nonfamily managers can act and introduce professional management in a family firm (Levinson, 1971) because external managers may lack the required cultural competence regarding the owner families' goals and values (Hall and Nordqvist, 2008), making it more difficult for them to support successful turnaround strategies.

### *2.2.3. Retrenchment*

Early literature on turnaround strategies has argued that retrenchment is essential for a successful turnaround (Pearce and Robbins, 1994) that has been questioned by other researchers (Barker and Mone, 1994; Ndofor et al., 2013). The scarce literature on family firms is inconclusive. Whereas Cater and Schwab (2008) include retrenchment as a necessary step towards the turnaround, Tsao et al. (2016) found negative performance effects of HRM retrenchment practices in Taiwanese family firms. A common way to reduce costs is through downsizing. Extant research on downsizing in family firms suggests that such firms are less likely to implement extreme measures such as deep job cuts because it will endanger their reputation (Block, 2010) and violate their commitment to employees (Stavrou et al., 2006).

Accordingly, our empirical study also sheds light on the use of retrenchment strategies in

family firms differently; this is in line with recent calls to look, for example, at non-listed and small and medium-sized family firms (Casillas et al., 2019). Casillas et al. (2019) distinguished between two different types of retrenchment, namely whether the firm's survival is at risk or not. Also, Laffranchini et al. (2018) noted the entangled and scarce literature on turnaround strategies in family firms, highlighting the need to study turnaround with regard to the type of SEW the owning family prefers.

### 2.3. Combining contextual factors and SEW

Cater and Schwab (2008) identified several contextual factors that can explain the turnaround strategies in family firms. These factors are “strong ties to the family firm, small pool of replacement candidates, consensus orientation, informal management systems, internal orientation, and integration of nonfamily employees, altruistic motives, and long-term goal orientation.” (Cater and Schwab, 2008). Since their study was based on two cases from the U.S.A., these factors might differ in different contexts (Welter, 2011). In particular, social networking with peers and family business associations is also seen as an important contextual factor (Hong et al., 2012; Seaman et al., 2010). This will enhance the firms' ability to draw on external expertise and increase their crisis resilience (Cater and Schwab, 2008). Cater and Schwab (2008) also point out that in a crisis, family members are willing to personally sacrifice for the firm temporarily to an astonishing degree (e.g. pay cuts, investment of private funds). They even commit their time and effort voluntarily at a level hard to imagine in any regular employment relationship. This behaviour increases the firm's ability to withstand a severe crisis and will extend the firm's timeline for implementing turnaround strategies. Thus, the owner-family is seen as an important back-up resource that is not available to non-family firms (Kraus et al., 2013). Nevertheless, we argue that these factors are important because they show some overlap with the more recent concept of socioemotional wealth (SEW) (Berrone et al., 2012). We suggest that these contingency factors be seen in the light of the FIBER-dimensions of SEW (Hauck et al., 2016; Kumeto, 2015). This is in line with recent findings that the twofold consequences of socioemotional wealth considerations can lead both to decline and help overcome it (Llanos-Contreras and Jabri, 2019).

Recently, the conceptualization of SEW (Gomez-Mejia et al., 2011; Gomez-Mejia et al., 2007) has attracted criticism because of unclear causes and effects resulting from the different dimensions (Miller and Le Breton-Miller, 2014), the relationships between the five dimensions (Chua et al., 2015), and methodological concerns (Prügl, 2019; Hauck et al., 2016; Schulze and Kellermanns, 2015). Still, for our study, the SEW perspective offers a relevant lens for studying turnaround strategies in different family firms, as emphasized by Trahms et al. (2013). Furthermore, turnaround situations such as decline can affect the socioemotional benefits of the owning family (Martin and Gomez-Mejia, 2016; Gomez-Mejia et al., 2007).

In a turnaround situation, the socioemotional endowment that an owner family receives from owning the firm is at risk:

“Losing this socioemotional wealth implies lost intimacy, reduced status, and failure to meet the family's expectations.” (Gomez-Mejia et al., 2007).

The SEW perspective consists of five dimensions (Berrone et al., 2012; Gomez-Mejia et al., 2011) for which the FIBER acronym has been introduced (Hauck et al., 2016; Naldi et al., 2013; Kumeto, 2015).

The first dimension is *family control and influence* (F). This dimension distinguishes family

firms from nonfamily firms because the owning family has control over the firm (Berrone et al., 2012; Chua et al., 1999). This control is also essential for turnaround strategies (Cater and Schwab, 2008).

The second dimension is *identification of family members with the firm* (I). Family members identify with the firm, which carries the family name and thereby strengthens the identification further (Brunninge and Melander, 2012; Dyer and Whetten, 2006; Gomez-Mejia et al., 2011). Owner family members' identification with the firm offers both challenges and opportunities in a turnaround situation (Cater and Schwab, 2008).

The third dimension is *binding social ties* (B). This dimension refers to social relationships of the family firm, which are partly based on kinship ties (Fitz-Koch and Nordqvist, 2017; Berrone et al., 2012). In a turnaround situation, these binding social ties can help overcome critical phases (Decker, 2018). Also, other stakeholders, such as employees or suppliers, can play a supportive role due to these binding social ties (Fitz-Koch and Nordqvist, 2017).

The fourth dimension is *emotional attachment of family members* (E). As a consequence of the overlap of family and business, emotions influence decision making in family firms (Brunninge and Melander, 2015; Zellweger and Astrachan, 2008). In a turnaround situation, emotions can lead to altruistic behaviour by family members (Cater and Schwab, 2008).

The fifth dimension is *renewal of family bonds through dynastic succession* (R). Family firms are often seen as legacies that will be passed on from one generation to another (Gomez-Mejia et al., 2011). Cater and Schwab (2008) proposed that long-term goal orientation in family firms can facilitate certain actions that would be more difficult in nonfamily firms.

Recent debates regarding the SEW perspective concern, amongst other things, the relationship between socio-emotional and financial wealth considerations (Martin and Gomez-Mejia, 2016; Cruz and Arredondo, 2016; Brunninge and Melander, 2015). Many researchers argued that owning families weigh potential gains and potential losses against one another (Gomez-Mejia et al., 2015; Gomez-Mejia et al., 2014; Boers et al., 2017). In turnaround situations, these mixed gambles will be more evident (Llanos-Contreras and Jabri, 2019).

To sum up, the research and our understanding of turnaround in family firms is still in its infancy (Kücher & Feldbauer-Durstmüller, 2019).

Here, in particular, more research is required in regard to turnaround strategies that are useful to survive in the market in the long run. In this vein, it might also be important to study how family firms can be better prepared and respond to crisis threats (Herbane, 2013).

In particular, it is not clear which contextual factors can positively influence the establishment of turnaround management in family firms. In particular, it is necessary to develop a detailed understanding of the relevant pre-conditions for the implementation of sound crisis and turnaround management that enables family firms to successfully exploit the opportunities and avoid the threats of challenges such as digital transformation, demographic change, and the increasing effect of globalization (Quinn et al., 2018). However, in view of the small number of empirical studies, it is unclear to what extent family firms design and actually implement crisis management with regard to the challenges mentioned.

### 3. Method

In this study, we draw on cases from different countries (Osnes et al., 2017). The companies had to be family businesses that were facing problems that required a turnaround. Therefore, the companies were selected purposefully (Siggelkow, 2007). Moreover, the authors needed to be

familiar with the companies, giving some prior knowledge. The authors agreed, after a joint discussion, to review their portfolio of studied family firms, to identify those that had filed for bankruptcy or had circumstances calling for a turnaround. The authors had been researching in Germany, Scotland, and Sweden, which limited the company selection further.

The three economies share a high preponderance of family firms (Eurostat, 2020; Schaper et al., 2008). Analysing the relationship between turnaround in family firms and the cultural context allows us to understand the effects of policy programs designed for family firms. Consequently, the cross-country perspective adopted in this paper will hopefully alert researchers, policy makers, and practitioners to cross-national differences in turnaround activities. More precisely, exploring the research question will provide a clearer understanding of the personal and organisational factors that have influenced the turnaround practices of family firms in the respective countries.

It also illustrates the difficulty of obtaining information from family firms in difficult situations, which can be reluctant to share their views (Alderson, 2015). By selecting cases from three different countries, we account for the diversity and heterogeneity of family firms. Table 2 shows the profile of the studied firms.

**Table 2:** Profile of sample

	GER1	SCO2	SWE1	SWE2
Company founded	1950	1990	1991	1970
Generation involved	2 <sup>nd</sup> & 3 <sup>rd</sup>	1 <sup>st</sup> & 2 <sup>nd</sup>	1 <sup>st</sup> & 2 <sup>nd</sup>	2 <sup>nd</sup> & 3 <sup>rd</sup>
Respondents	Owner managers	Owner managers	Archival sources	Owner manager
Period of data collection	2010–2017	2010–2015	2011–2017	2014–2017
Industry sector	Office equipment	Architecture	Retailing home interior	Garage
Number of employees	10	10	150	7
Annual turnover 2015 (TEUROS)	1.166	1.253	31.310	763
Main products	Office equipment	Domestic building projects	Home interior products in own shops and online	Garage services
Main customers	Business customers	Private clients	Consumers	Private and corporate customers

Crisis causes	Financial distress due to death of owner manager (family)	Financial distress due to weaknesses in management control systems (business)	Financial distress due to market misjudgment (business)	Financial distress due to burnout of owner manager (family)
Turnaround results	Business rejuvenation	Innovation enhancement	Bankruptcy and family exit	Bankruptcy and taking in new minority shareholders
Family control after turnaround	Yes	Yes	No	Yes, but new minority shareholders
Renewal of family bonds	High, but sideward succession	Next generation active in board	No	High, but revers succession

Source: The Authors

After the researchers had identified relevant companies, the authors collected further empirical material to research the phenomenon of turnaround strategies.

SWE1 differs in many ways from all the other companies. As Table 2 shows, the founding family no longer controls SWE1. Therefore, it was also not possible to conduct interviews with members of the owning family. However, we included the company because it illustrates the worst-case scenario from a family owner’s perspective, as the owner family loses all its socioemotional endowment (DeTienne and Chirico, 2013).

Table 2 shows that, in most selected companies, several generations of owner families are involved in the business, which is an important condition for the definition of the family business (Chua et al., 1999). As can be seen from Table 2, the size of the selected case firms varies in terms of the number of employees. Our sample comprises micro-, small-, and medium-sized family firms to cover the big diversity in privately held family firms (Carney et al., 2015). The majority of selected firms are small and medium-sized enterprises, as this size category represents a large group of family firms in the European Union (Eurostat, 2020). Interviews were conducted in all companies except SWE1. These interviews were complemented with press clips and annual reports.

The authors followed the conventions of case study research in that the selection of case companies is the first analytical step (Eisenhardt and Graebner, 2007; Eisenhardt, 1989). The authors relied on the work of Cater and Schwab (2008) to analyse the empirical material.

The semi-structured interviews addressed issues, which led to identifying the problems of the company as well as what has been done to overcome these problems; that is, the turnaround. The interviews lasted between 45 and 90 minutes. The respondents were owners and managers of the studied companies (see Table 2). In general, the investigation followed the steps promoted by Trahms et al. (2013), as we searched for answers concerning (1) causes of decline, (2) response factors, (3) firm actions, and (4) outcomes. Next, the answers were sorted according to the categories suggested by Cater and Schwab (2008). However, as elaborated earlier, the focus is on the turnaround, so we do not fully discuss the causes of the decline.

Both researchers have a family business background and first-hand turnaround experience. This combination indicated that they would have sufficient expertise and objectivity for

the study's data collection and data interpretation (Cater and Schwab, 2008).

The data analysis process began by transcribing the recorded interviews. The two researchers conducted the transcriptions, which allowed these persons to become familiar with the data. The researchers took notes during this process, these notes assisted with most of the initial data interpretations. Once the transcripts were produced, the same two authors deductively coded the data generated. Thus, the first step was to identify all data related to a list of predetermined topics that were derived from extant literature and covered in the interview guide. To increase the reliability of the coding (Miles and Huberman, 2013), they were discussed by the two coders in an iterative process and adjusted, as appropriate.

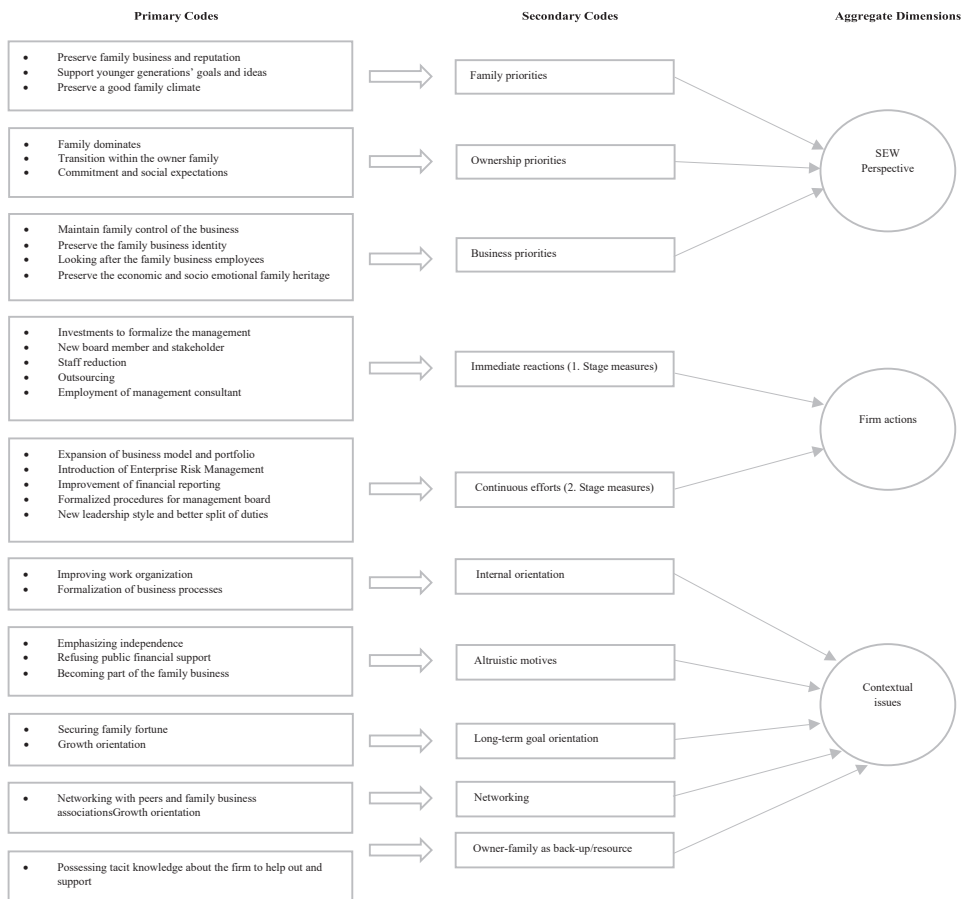
We performed an in-depth data analysis using content analysis and pattern identification. As Eisenhardt (1989) recommends, we selected a theme and looked for within-group similarities coupled with differences. Then, we developed theoretical points (so-called secondary codes) that are contextually grounded in the empirical data and choose the most expressive comments to bring theoretical points to life (aggregated dimensions) (McCarthy, 2003).

Non-quantifiable interview data has been presented in the form of "direct quotations." The statements will be used for analysis of management behaviour, but also for the examination of problems that arise in connection with establishing the turnaround in family firms.

The code system in Figure 1 provides information about how we arrived at the theoretical dimensions and about the drivers of turnaround management in family firms. It also shows the contextual issues informing turnaround strategies under which decisions were made.

To ensure external validity, case study samples were chosen for diversity. To cover reliability, a detailed case study protocol was developed and verified by both researchers. Also, detailed interview notes were taken. All materials generated from the interview process were collected. The above-described mechanisms and elements were used to ensure data quality and the trustworthiness of the research results.

Figure 1 Data Coding from the interview



Source: the authors

### 3.1 Background information about the studied companies

#### 3.1.1 GER1

GER1 is a family business in the office equipment and stationery industry. This industry is undergoing major changes with the advent of online shops, where customers can order office furniture and equipment online. GER1 was founded in 1950 as a sole trader by the grandfather and is currently operated by the third-generation owner. Originally, the daughter was not willing to work in this firm due to the father's authoritarian leadership style. However, after the father's death in 2004, the daughter decided to quit her job and run the family business together with her mother to keep the business alive. This was a real challenge for the daughter as she had no industry experience. This crisis situation led to the recognition that the firm lacked a sound business strategy and management expertise.

### 3.1.2 SCO2

The enterprise was founded in 1999 as a sole trader by the father and is operating as an architecture business. The business focuses on domestic building projects, and its customers are mostly private clients. In 2005, it became a limited company and later, the son took over the business from his father. In 2010 the son was becoming the only managing director of the firm. He holds a Bachelor's degree in architecture and gained professional experience in two larger architecture companies before joining SCO2. The other two non-managing directors are the mother and brother, who act as a sounding board for the son. The father is further involved in the company as an advisor. While the focus was on growth, SCO2 expanded very quickly in terms of new projects and hiring of new employees, taking on various projects. The result was that the company finished many projects with a delay and cost overruns, which resulted in severe cash flow problems and stretched SCO2 to its limits. They had to negotiate a bridging loan with the lending bank to cover the financial losses. The family also injected new equity capital to keep the business running.

### 3.1.3 SWE1

SWE1 was a family business in the home furnishing industry. The industry is turbulent due to new competitors through the internet. SWE1 was founded in 1991 as a physical retail store. By 2002, SWE1 had expanded to different cities in Sweden and also had an online store. Two sons of the founder had entered the business in management positions. In 2015, the company had 23 stores all across Sweden. The owning family did not only control the board of directors exclusively but also owned the company completely. Before the reconstruction, the firm expanded rapidly, but control stayed in the hands of the owning family. Due to negative results, the company decided to outsource its warehouse. In 2015, the company filed for bankruptcy. An official receiver took over the company and sold some of the stores.

### 3.1.4 SWE2

SWE2 was founded in 1970 as a freestanding garage. The third-generation member became the managing director in 2003. The garage offers two main areas – car repair and service – as well as the sale and storage of tires. In 2013, the managing director collapsed after a burnout. Before that, the owner-manager hired a management consultant to help restructure the business as the turnover had doubled but the costs had increased even more. After this incident, he was on sick leave for several months, meaning the management consultant had to take on greater responsibility. In 2014, the owner-manager was unable to return to work, while the costs increased to the point that the company was close to filing for bankruptcy. The third-generation owner-manager returned at the end of 2014 and worked on reconstructing the company. After failing to renew bank loans, he sold the property and rented it instead. He reduced staff and introduced six-hour workdays, which led to less costly over time and a more motivated workforce. Eventually, the tax office filed for bankruptcy in 2016. Thereafter, the owner's family, together with local entrepreneurs, took over the business's activities in a new owner constellation, where the owning family kept the majority and the third-generation owner stayed as the managing director. The second-generation owner and father to the current managing director continued to work in the company and took a position on the board of directors.

## 4. Empirical findings

The empirical section consists of two parts, i.e., firm actions and turnaround and the FIBER dimensions. Even though these parts are not mutually exclusive, they represent two distinct levels of activities in the turnaround management processes. The owning family and its willingness to support the turnaround is central.

### 4.1 Firm actions

In this section, we describe firm actions, which we divide into immediate and more continuous efforts to handle the crisis.

#### 4.1.1 Immediate reactions to crisis

The literature has identified three short-term strategies to respond to a critical situation: changes in the Top Management Team (TMT), external advice, and retrenchment (Cater and Schwab, 2008; Trahms et al., 2013). However, family firms may act differently when the socioemotional endowment is endangered by these strategies (Gomez-Mejia et al., 2007).

Our cases did not follow a sequential approach in selecting the turnaround strategies, as the general literature reviews by Schoenberg et al. (2013) and Trahms et al. (2013) suggest. Accordingly, retrenchment measures are frequently the first step in any turnaround strategy and when things improve, the company concentrates on TMT changes and self-renewal. In some of our cases, the firms operated in the exact opposite direction, making large investments in the company and changing the management, instead of making cost efficiency measures.

GER1 and SCO2 invested in the IT infrastructure and set up a knowledge management system to get better documentation of the relevant business processes and to capture the critical knowledge. According to the owner-manager of GER1, "...there is a big knowledge drain and we don't have a sound strategy to handle this". To get the commitment of the employees, the owner-manager of GER1 employed a change management consultant to build trust and confidence in the workforce. The Scottish firm (SCO2) did big investments in the formalization of the business processes.

The above shows how changes in the business context affected the owner's socioemotional wealth perspective and how the changes in the SEW perspective affected the strategies to handle the organizational decline. It also highlights family climate as a critical response factor explaining the family availability to commit family resources for turnaround (Llanos-Contreras and Jabri, 2019). In the GER1 and SCO2 cases, all family members were committed to investing more financial resources to turn the family business around. According to Jaskiewicz et al. (2016), this so-called "survivability capital" was only available when family and business priorities were correctly balanced. In both firms, continuity (long-term orientation) was the main priority of family members. This survivability capital invested by the family members allowed them to implement the new strategies and recover the firms' long-term orientation. In the Swedish firm, SWE2, the managing board took some retrenchment measures, such as downsizing, but also worked on the formalization of the business processes and made some changes in the TMT.

In terms of crisis, owning family members can be seen as a competitive advantage that is typically not available to nonfamily firms (Habbershon and Williams, 1999). Although owning-family members are not involved in the operations, they are aware of the firm and leadership, allowing them easier entrance into the firm (Hall and Nordqvist, 2008). Ownership has mostly been discussed with regard to filing for bankruptcy (cf. Trahms et al., 2013), but family

ownership has no clear-cut direction. Some characteristics of family ownership support turnaround (Cater and Schwab, 2008), whereas others hinder it due to the higher risk involved (Gómez-Mejía et al., 2007). Our study shows that owner-family members can have a crucial and positive impact on the success of a turnaround. Still, this is dependent on the available resources.

The managing director of SCO2 pointed out:

“We are a typical family business. My father set up the firm, and now, I have taken over the helm of the firm and my brother and mum are also on the board as non-exec directors. My father has taken on an advisory role as an external consultant, but at any time, he can jump in to help out with managing the firm.”

Regarding the Top-management changes, differences can be noted. In the Scottish case (SCO2), there was the classical transition from the father to the son, whereas in the German case, the daughter and mother formed a joint leadership of the firm. In GER1, the daughter noted, “I must say it frankly, if my father were alive, I wouldn’t have joined the firm. Due to his authoritative leadership style, we would not have found common ground for working together. With my mum, the other family member, we work in tandem to modernize the business.” In the Swedish case SWE2, they employed a managing director from outside the family to take over responsibility after the collapse of the family CEO.

Earlier research found that owning families have difficulty taking external advice due to their internal orientation and focus on themselves (Cater and Schwab, 2008; Gómez-Mejía et al., 2007). When looking at the third short-term turnaround strategy, namely external advice/expertise, all firms were concerned with taking in some external expertise. The surveyed family firms value establishing an external network and learning from other family businesses. In some cases, the tax advisor plays a major role in advising family firms. Networking with peers and family business associations also helps to improve and formalize the management systems and the decision-making in family firms. Our results have substantiated that this has significantly influenced the implementation and improvement of the governance structure in the firms. This was particularly emphasized by the son, the incoming managing director of SCO2:

“In a crisis, it is more difficult to take a neutral stance or an outside view and to take hard measures to get the company alive. Here again, the Scottish family business association was a good adviser and it was excellent to have a network with like-minded firms in the region.”

#### *4.1.2 Continuous efforts to manage the turnaround*

All surveyed family firms changed their business strategy, leadership style, and operations to adjust to the environmental changes and to make their companies fit for the future. It is also evident from the observations that the firms see the need for further professionalization of their management systems to be more crisis-resilient in the future (Herbane, 2013).

Especially for new strategy formation or adapting the current business model, the interviewed firms take on outside help and highlight the importance of getting the employees involved in the strategy building process as well as the actions for the preparation or prevention of a new crisis. As the owner-manager of GER1 recalls: “I try to involve the employees in the goal-setting process and we regularly have employee and strategy meetings”.

Our research also shows that changes in products and operations are accomplished by the formalization of their management systems. We found that the governance and risk management play a big role. A sound and more formalized governance structure can be used for better transmitting knowledge from senior family members to junior family generations that are just

entering the board or taking on more responsibilities (Giovannoni et al., 2011). Also, it was evidenced that the family firms were in the process of or already implementing a so-called “family board” as a means for better governance and oversight of the firm. The board will act as a sounding board for the family members to discuss and explore important operational and strategic issues that are relevant to the respective firm. This is also helpful for the transition process in a family business.

To minimize the negative impacts of the crisis and to be better prepared for the future, all firms worked on their leadership style. The owners found it beneficial to build trust and confidence among the workforce and to delegate more decisions to the respective employees. The family firms also saw the need to better align with important stakeholders.

The Scottish case SCO2 is a good example of illustrating this change in relationship-building with key stakeholders.

SCO2 owner-manager’s son said: “Two years ago, when I applied for a bank loan, I was only asked if I can afford to pay the installments. Last year, I had to apply for another loan to overcome the cash flow problems and had to prepare a lot of paperwork, explaining my business model and strategy and to hand in a sound cash flow planning for next months.”

To summarize, the turnaround actions in the case firms have stimulated active learning and resulted in better board work, better assignment of responsibilities and improvements in the management system, and changes in the leadership style

The long-term goal orientation is peculiar to family firms (Zellweger and Sieger, 2012) and should help the implementation of retrenchment strategies (Cater and Schwab, 2008) as the owning family will sacrifice short-term losses for long-term survival. This long-term orientation was present in all of the studied firms except SWE1. All companies continue their operations. In this regard, it could be argued that the strategies were successful. However, when including the question of family ownership, the picture looks different. The owning family of SWE1 had to sell the company. In SWE2, the owning families had to accept a new owner, which dilutes their control.

We were also able to identify altruistic motives in most of the companies under study. The analysis of the altruistic motives revealed two overarching patterns of motives; namely, social expectations and commitment on one hand, and striving for or maintaining the independence of the family business on the other hand. The findings correspond to the different views on altruistic behaviour in family firms (Corbetta and Salvato, 2004; Schulze et al., 2003). It appears that, in most firms, altruistic motives related to stewardship are dominant (Corbetta and Salvato, 2004). In contrast, different types of altruistic motives dominate in SWE1 (Schulze et al., 2003), resulting in efforts to maximize the outcome for the owning family. In SWE1, the owner family cut the ties to the family firm and prioritized the family fortune over the business. This shows that the endowments owning families obtain from owning a firm can change (Boers et al., 2017). However, strong ties are often seen as a hindrance to changes in the top management or the introduction of new strategies (cf. Cater and Schwab, 2008). Nevertheless, these strong ties can also lead to members of the owning family being available as a resource (Astrachan and Kolenko, 1994; Danes and Olson, 2003) and able to step in and take over responsibilities (for example, GER1 and SWE2).

To illustrate, the daughter of GER1 stated:

“Until the death of my father, the succession of our family business was not clear. After finishing university, I told him that I was not interested in taking over the firm due to his leadership style. His sudden death was the triggering event that changed my mind, and I felt the responsibility to carry on his life work.”

#### 4.2 Turnaround and the FIBER dimensions

We show that owning families draw different conclusions with regard to the impact of decline on their socioemotional endowments. Therefore, owning families weigh the risks and the dimensions against one another, leading to different conclusions. The findings are presented in Table 3, below which shows that all firms identify with the firm. Company SWE1 is an exception here as the owning family valued their socioemotional gains higher by selling the firm, whereas all other cases judged that their SEW can be kept leading to turnaround strategies. Hence, in the remaining cases, there was a strong identification of the owning families with the firm. This also resulted in binding social ties, making it easier to execute turnaround strategies, such as cutting costs. It seems that there is an association between the size of the firm, the involvement, and the emotional attachment. In other words, the closer the owning families are to the business, the likelier it is that they are willing to take the extra step needed for a turnaround. Therefore, we see a combination of the dimensions of identification, social ties, and emotional attachment.

Dynastic succession is a motive supporting further Stage 2 strategies. In this regard, it is noteworthy that SWE2 and GER1 choose a backward and sideward succession to facilitate dynastic succession.

**Table 3:** FIBER dimensions in comparison

SEW DIMENSIONS	SWE1	SWE2	GER1	SCO2
F	No	High, but lower	High	High
I	No	High	High	high
B	No	High	High	High
E	No	High	High	High
R	No	High, but revers succession	High, but sideward succession	Next generation active in board

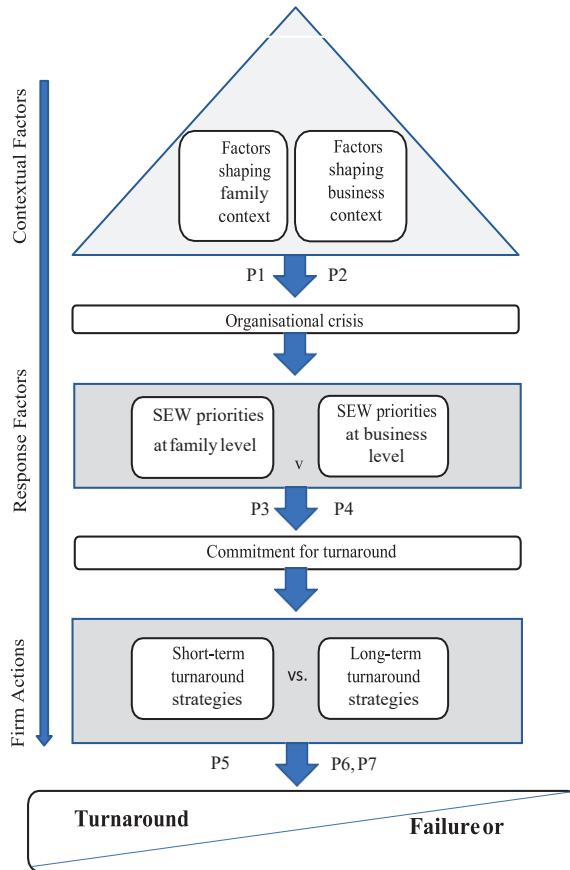
**Source:** The Authors

Table 3 reveals how the FIBER dimensions are treated across cases. Differences are associated with the R-dimension which can be explained by the respective circumstances.

### 5. Discussion

Figure 2 proposes a theorizing framework based on Trams et al. (2013) and Llanos-Contreras and Jabir (2019), connecting the propositions.

**Figure 2** Exploratory framework of how socioemotional wealth influences turnaround strategies in family firms



Source: Inspired by Trahms et al. (2013) and Llanos-Contreras and Jabri (2019)

### 5.1 Contextual issues

In this dimension, we included several aspects observed in prior research (Cater and Schwab, 2008). Based on our research results, we suggest that these factors are contingency factors (Seaman et al., 2010) that influence the organizational decline and the successful implementation of turnaround strategies.

To start with the contextual factor “Internal orientation” it is interesting to note that nearly all companies see the crisis and turnaround process as means to improve the work organization and to further formalize the business processes. As evidenced by the interviews, the family members saw the need for formalization but before the turnaround the focus on this issue got lost. For example, owner-managers were working out contingency plans, replacement plans, and so on. With reference to our case firms, it is important to note that the owner-managers

of the family firm should not focus only on operative tasks but be willing to delegate some authority to their employees, to direct more time and attention to the strategic management of the firm, such as re-designing the business strategy or product portfolio. One of the key drivers behind a successful turnaround strategy is the formalization of the business processes and integration of key employees in this process. Based on the results of the case study, relationship building and networking are identified as important facilitators for a successful turnaround. For example, GER1 and SCO2 to recover from the severe crisis events, proactively communicated with their customers, and collaborated with their suppliers to sustain their business and obtain their understanding and support (Hong et. al. 2012). Concerning the role of stakeholders, Decker (2018) showed that their support is conducive in the initial stage of a turnaround but negligible in the later recovery stage. Decker's study further suggested that such stakeholders' ability and willingness to provide support are shaped and may be manipulated by a firm's actions and behaviour. Thus, a bad relationship between the actors is detrimental to the success of a turnaround.

Regarding the altruistic motives, we can confirm the findings of Cater and Schwab (2008) and Llanos-Contreras and Jabri (2019) that family firms place a strong emphasis on keeping the business independent, thus refusing public financial support. For example, the GER 1 firm was sacrificing a lot of the family's fortune to re-design the current business model to make the firm fit for the future. It is also worth noting that non-active family members felt a strong need and pressure to become part of the family business to support the firm in this critical situation. Here, we can also agree with the view that the owner family can act as back-up resource, which is an invaluable resource in times of crisis and turnaround.

The long-term goal orientation as a particular feature of family firms is not without risks for struggling family firms. With the exception of firm GER 1, all other cases were more reluctant to take a proactive approach to turnaround the family firm. However, our research has shown that, for the family business to remain alive and prosper, it is important that family firms should take a more balanced approach to risk-taking (Boers, 2016). As the literature points out, risk aversion in family firms can also endanger a family firm's existence (Hiebl, 2014). For example, showing of lack of willingness to invest in R&D projects and/or pursue growth strategies (Hiebl, 2014) can hamper the firm's innovativeness and this will hurt the firm in the long run.

The above analysis led to the following propositions (P):

P1: A crisis is more likely to occur when the family business is vulnerable at the family and business levels simultaneously.

P2: A crisis becomes more severe when owning family members' personal goals and business goals are misaligned.

## 5.2 SEW perspective

In this perspective, we subsume family, ownership, and business priorities, which in turn are based on the SEW-dimensions. A crisis requires owning families to re-prioritize their socioemotional endowment, which is at risk (Gomez-Mejia et al., 2007; Hirigoyen and Basly, 2019). Based on how owning families prioritize, the FIBER-dimensions will indicate how the different turnaround strategies are applied.

We argue that the dimensions are of relevance, but may not alone explain diverging turnaround strategies. A relative reduction of family ownership (F) can be accepted when other dimensions (I, B, E) remain high. Thus, owning family may be willing to play a mixed gamble (Boers et al., 2017) in a turnaround situation as long as they remain the controlling shareholder.

ers. Taking in minority shareholders can be similar to an IPO where owning families need to give up parts of their shares (Boers et al., 2017). However, the family still maintains control as a majority shareholder. In exchange, new shareholders help provide a future for the business and allow continued SEW-gains for the owning family. This develops the concept of SEW further as it shows its dynamic and changeable nature which has, so far, not been observed, particularly, not in the context of turnarounds in family firms (Llanos-Contreras and Jabri, 2019). The findings (Table 3) further reveal that not all dimensions develop in the same direction (Hauck et al., 2016, Cleary et al., 2019).

The above discussion led to the following propositions (P):

P3: Balancing family and business goals eases the development of successful turnaround strategies.

P4: High levels of socioemotional wealth facilitate implementing strategies for a turnaround successfully.

P5: Socioemotional wealth dimensions need to be taken care of proactively to prevent crises at the family level.

### 5.3 Turnaround firm activities

Evidently, the surveyed family firms need further professionalization of their management systems to be more crisis-resilient in the future (Herbane, 2013). Our research shows that the formalization of their management systems accomplishes changes in products and operations. Here, in particular, we found that the governance and risk management have to play a big role. A sound and more formalized governance structure can be used for better transmitting knowledge from senior family members to junior family generations that are just entering the board or taking on more responsibilities (Giovannoni et al., 2011). This is also helpful for the transition process in the family business. We propose that governance and risk management is a useful vehicle for supporting the turnaround process and making the firm more resilient to internal or external crises.

The professionalism of the governance and risk management can also facilitate the support from key stakeholders (Decker, 2018). Especially, the lending banks are confident and willing to support the turnaround process in the firm (Mayr and Lixl, 2019). This also has practical implications for supporting agencies and advisers, as they should focus on awareness-raising for governance and risk management issues in family firms. This dimension also shows the central role of owning families.

The following propositions (P) summarize the analysis above:

P6: Succession, governance, risk management issues, and changes in the business model have to be managed proactively, to facilitate successful turnaround strategies.

P7: Succession, governance, risk management issues, and changes in the business model need to be managed proactively to avoid loss of control of management and ownership.

## 6. Conclusions

We conclude that turnaround in family firms is a process, which needs to be studied by observing the social and emotional dynamics between the family and the business. Our proposed framework highlights, that family and business events, as well as environmental circumstances,

shaped the scenario explaining the priorities and actions that triggered the turnaround process.

In the four studied family firms, we see different choices regarding turnaround strategies. There is a focus on traditional turnaround strategies; however, keeping control over the business is considered essential in three out of four cases. Thus, our work contributes to the almost non-existent literature on how family firms manage a turnaround and it advances the literature regarding the socioemotional wealth perspective of the family business. Especially, it shows how the FIBER dimensions develop differently in a turnaround situation.

This work sheds light on how family business owners balance socioemotional wealth priorities over time. It advances the work of Gomez-Mejia et al. (2014) and shows that the mixed gamble of assessing current prospective socioemotional wealth and financial wealth is a dynamic gamble. Thus, further replication of the research framework is necessary to provide additional support for our propositions to continue the development of our findings.

Managers and family owners can benefit from this research by noting which behaviours could lead to a successful turnaround. Our research has also shown, that a crisis does not necessarily lead to business failure, as it can be seen as a chance to alter a potentially outdated business model and build for the future (Mayr and Lixl, 2019; Schoenberg et al., 2013). Conversely, family owners can learn about the importance of the alignment of SEW priorities as a critical response factor to decide whether to follow exit strategies or turnaround actions.

We must acknowledge the limitations of our study, which open up opportunities for further research. Our research design makes it impossible to generalize the derived findings. In the same line, the replication of this study across different cultural settings would also be useful to determine whether the cultural background affects the way family firms behave when faced with a turnaround. However, further qualitative and quantitative research will be necessary to fully understand the turnaround process in family firms in its entirety.

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# *“It’s Time to Focus on Humanity”: Millennial Business Students’ Perceptions of Competencies Needed by Future Leaders*

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## **Abstract**

Technological innovations and increasing digitalization are changing business environments, workplace communications, and leadership practices rapidly. Yet, existing studies have not explored the competence that is required by leaders to lead efficiently in the digital age of the future. This study examines millennial business students’ perceptions of the competence needed by leaders in the digital age of the future. The data were collected from focus group interviews with business students (n=28) utilising the Zaltman Metaphor Elicitation Technique. The findings indicate that the competence needed by leaders in the digital age of the future consists of five dimensions: the humanity dimension, the communication dimension, the remote work dimension, the technical and digital dimension, and the business foresight dimension. Today’s business students place great value in humanity and leaders’ communication competence, rather than merely stressing the leaders’ technical and digital competence.

## **Keywords:**

millennial business students, leadership, competence, higher education

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## 1. Introduction

We are witnessing a revolution of work with an opportunity to re-imagine how we work and lead people in the future (De Smet et al., 2021). The current state of the world depicts an epoch of change: the global pandemic, COVID-19, has forced many organizations to innovate new business strategies and apply new e-leadership practices when leading people in remote work environments (Contreras, Baykal & Abid, 2020). All in all, artificial intelligence (AI) and increased automation have begun to increasingly shape business strategies, organizational structures, and leadership practices (Bolden & O'Regan, 2016; Huang et al., 2019; vom Brocke et al., 2018). Developments in ICT and the increased use of digital communication tools at work have changed the way people communicate and connect, both of which are critical aspects in leadership (Webber & Forster, 2017). The question then arises (Allen, 2019), how should the understanding of leadership competence progress in this new era of rapid dissemination of information, distinct communication models, and constant technological change?

Besides digitalization, other megatrends will shape the workplace in the future. Megatrends move forward steadily and influence our future (Sitra, 2020). In addition to digitalization, the Finnish Innovation Fund, Sitra, has named the aging population (especially in the Western world) or demographic shift as well as diversity as two megatrends. Today, many organizations are dealing with a diverse and multigenerational workforce. For the first time, the global workforce comprises four separate generations working cooperatively: baby boomers, Generation X, Generation Y, also referred to as millennials, and Generation Z (Gabrielova & Buchko, 2021; Koponen, 2019; Magano et al., 2020). Several authors have debated the issue of how millennials (born between 1981/1982 and 2002) are going to challenge and reform business practices (Twenge & Campbell, 2008; Gilbert, 2011; Hershatter & Epstein, 2017), which is important because already now (Gabrielova & Buchko, 2021) and in the near future, it will be millennials who will occupy most of the top-level positions in the organizations that make up the world's business environment. Most existing research provides insights of current or former CEOs or other executives' perceptions of future leadership competence (see, e.g., Westerman et al., 2014; Morikawa 2017; Van Wart et al., 2019; Müller & Klus, 2021). Although one can agree that experienced chief executives, managers, and leaders have essential knowledge of the matter, the future lies with the younger generations. As far as this present study is aware, prior research has not focused on millennial business students' perceptions of the necessary leadership competence for the digital age of the future.

Therefore, we examine millennial business students' perceptions of the leadership competencies required in the digital age of the future. With our findings, we bring forward a new understanding of leadership competence, and also the roles that leaders need to adapt to when leading people in the digital age of the future. We have selected to focus on the millennial generation as it sets itself apart from previous generations in several respects, one of which is that their relationship with technology is substantially closer and more open than that of previous generations (Gong et al., 2018). Through this relationship, it has been seen that millennials tend to have a lower tolerance of boredom than older generations, to expect variety, to be independent and autonomous, and to exhibit high levels of confidence in themselves and their peers (Roehling et al., 2011).

Many portrayals of millennials today are based on popular or business sources whose conclusions are not grounded in empirical study (Rosa & Hastings, 2017). Millennials are for example labelled "job hoppers" with a low commitment to organizations (Adkins, 2016; Landrum, 2017). Academic research supports this claim: a meta-analysis of 20 studies on generational

differences shows that compared with other generations millennials have greater intentions of leaving their organizations (Costanza et al., 2012). This challenges the development of leadership practices and competencies to commit young employees to the organization (Gabriellova & Buchko, 2021). Although previous studies on the competencies of leaders in the digital age exist (see e.g., Lawson, 2019; Van Wart et al., 2019) there is no consistent theoretical leadership framework that covers all the competencies listed in the existing literature. Moreover, existing leadership theories do not specifically consider the impact of digital transformation on leadership (Henderikx & Stoffer, 2022), and we lack an understanding of the leaders' competencies needed for the digital age of the future. Therefore, this present study will not seek to contribute to any specific leadership theory as such but will rather seek to identify the dimensions of the necessary leadership competence for the digital age from the millennial business students' perspective. Thus, the research question of this study is:

RQ1: How do millennial business students perceive the leadership competencies needed for the digital age of the future?

To begin, this study will present the theoretical background, focusing on digital transformation and leadership competence, leadership in the digital age, and millennials as a generation. This will then be followed by an introduction to the method of the study, the findings of which are derived from the data collected from business students in Finland. Finally, the implications of this study's results for leadership and management education as well as for business practitioners will be addressed.

## **2. Theoretical background**

### **2.1 Digital transformation and leadership competence**

Different theories and theoretical approaches to leadership have emerged over the years. Leadership theories have evolved from focusing on leaders' traits (e.g., Trait theories, Great Man theory), to leaders' skills and adaptation to leadership styles (e.g., situational, behavioural, and contingency theories) (Henderikx & Stoffers, 2022; Northouse, 2016). More recently, leadership theories have focused on employee engagement and person-centred styles (e.g., transformational leadership, collaborative leadership, servant leadership) (Henderikx & Stoffers, 2022; Northouse, 2016). In the field of leadership research, the focus of research has also shifted from a leader-only approach to one which acknowledges the role of followers, peers, the working environment, and culture (Larjovuori et al., 2018). Today, leadership is seen as a dyadic, strategic, and socially complex phenomenon (Yukl et al., 2002; Uhl-Bien et al., 2007). All in all, theories of leadership have transformed from static leadership theory (e.g., Trait theories) to emphasize relationships in leadership practice (Auvinen et al., 2019; Northouse, 2016; Raelin, 2016). Still, existing leadership theories do not specifically consider the impact of digital transformation on leadership (Henderikx & Stoffer, 2022), and we are lacking an understanding of the competence leaders will need in the digital age of the future.

Digitalization, the use of digital technology as a pervasive phenomenon, is a crucial part of an ongoing transformation in business, organizations, and society. Westerman et al. (2014) divide the digital business transformation into three main elements: transforming the customer experience, rethinking operational processes, and reshaping business models. Digital transformation, therefore, indicates a broad, strategic business transformation that is driven by customers and requires an all-encompassing organizational change, often involving digital

technologies (Hanelt et al., 2020). It has been noted (Forrester, 2019) that such a transformation is a fundamental challenge for leaders as they must prepare for the disruptive future that might evolve in any direction.

A leader's role in the digital transformation is crucial (Westerman et al., 2014; Sainger, 2018; Müller & Klus, 2021), and lately researchers have paid special attention to electronic leadership (e-leadership). Avolio and colleagues (2000) were the first to define e-leadership as: "a social influence process embedded in both proximal and digital contexts mediated by AIT [Advanced Information Technology] that can produce a change in attitudes, feelings, thinking, behaviour, and performance" (Avolio et al., 2014, p. 107). More recently, e-leadership has started to emphasize ICT and communication, as Van Wart et al. (2019) state: "e-leadership is the effective use and blending of electronic and traditional methods of communication. It implies an awareness of current ICTs, selective adoption of new ICTs for oneself and the organization, and technical competence in using those ICTs selected" (p. 83). Because e-leadership is a special form of leadership and as e-leadership practices are increasingly required in today's workplace, researchers have started to explore new competencies that e-leadership requires.

Competence is generally understood to consist of knowledge, skills, and attitudes (Crawford, 2005; Magano et al., 2020), however, according to Loufrani-Fedida and Missonier (2015), competence is thought to be the ability of an individual, team, or company to combine and mobilise resources (skills, knowledge, attitudes) to implement an activity in a situation. Despite the different views of competence, in this study, we focus on the individual level, and we are interested in the competence of leaders in the digital age of the future.

In the existing literature, many insights and aspects of a leader's competence in the digital age can be found. While some experts predict that interpersonal skills and capabilities are likely to diminish in the digital future (Clerkin, 2015), others see that the future human workforce is likely to carry out more creative and strategic exploration work than that which is currently being done (Huang et al., 2019; O'Reilly & Tushman, 2013). As the work itself is changing, the competencies of leading people are also undergoing changes, and many authors have formulated the required competencies for business leaders in the digital landscape. Examples of core leadership competencies established by several social science and management researchers are illustrated in Table 1.

**Table 1:** Suggested leadership competencies in the digital age found in the previous literature.

LEADERSHIP COMPETENCIES	AUTHORS
Taking risks and enhancing decision making	Horney et al. (2010)
Promoting transparency	Bennis (2013)
Engaging with employees and cherishing relationships within networks Leading the way with commitment and strong digital governance	Westerman et al. (2014)
Creativity Enhanced social intelligence and critical thinking skills	Clerkin (2015)
Understanding the implications of intelligent digital technologies	Kohnke (2017)
Building a strong vision of the future and communicating clearly	Larjovuori et al. (2018)
Encouraging and emphasizing experimentations, and accepting errors	vom Brocke et al. (2018)
Foresight for new business opportunities	Sainger (2018)
Exercising life-long learning	Moldenhauer and Londt (2019)
Soft (personal) skills such as motivating and collaborating with others, communication, change management, talent management, relationship management, negotiation, conflict management	Lawson (2019)
Awareness of current information technologies (ICTs) Selecting suitable ICT for the organization and for oneself Technological competence in using those technologies. Leaders' e-competence includes e-communication skills, e-change management skill, e-social skills, e-team building skill, e-technological skills, and e-trustworthiness.	Van Wart et al. (2019)
A strong ability to think and act entrepreneurially (self-)organization and IT skills A profound ability to motivate others A high degree of flexibility, commitment, and creativity. Calmness	Müller & Klus (2021)

Regarding examples of leadership competencies, as Table 1 shows, at a time when all major industries are going digital, leaders need to view all aspects of business differently than in the past and need foresight for new business opportunities (Sainger, 2018). As the economic context grows more erratic, business leaders around the globe will be expected to take a more flexible approach to risk and make faster decisions (Horney et al., 2010). Furthermore, promoting transparency (Bennis, 2013), for example, in decision-making, is considered important.

Westerman et al. (2014) have suggested a leader's ability to engage employees and cherish relationships within networks, as well as by leading the way with commitment and strong digital governance to be key, while Clerkin (2015) has pointed out a leader's creativity, social intelligence, and critical thinking skills (see Table 1). In addition, Kohnke (2017) underlines the importance of chief executives' competence in appreciating the implications for leadership of digital and intelligent technologies, which will not only change the manner of working, but will also expedite change in every business area. As a digital age leader needs to encourage a working environment that has room for experimentation and errors, it is only in such an environment that innovation can thrive. Furthermore, leaders should have a clear vision of the purpose of the organization and communicate this to subordinates to foster their genuine commitment to it. Simultaneously, successful leaders should empower their subordinates to reach their full potential in finding creative ways to reach their goals. Indeed, organizations that have a fluid structure are more innovative than those that are more rigid (vom Brocke et al., 2018).

Implementing digital transformation within organizations calls for commitment,

strategic actions, and investments (Larjovuori et al., 2018). Larjovuori et al. (2018) recommend that executives absorb digital business transformation into an operating strategy. Ultimately, leading the digital transformation will involve managing change (Sainger, 2018), and leaders are expected to be life-long learners (Moldenhauer & Londt, 2019). Leadership competence is seen as a part of the Management Accounting Competence Framework, which includes six knowledge domains (strategy, planning and performance; reporting and control; technology and analytics; business acumen and operations; leadership; and professional ethics and values; see Lawson, 2019). This framework has been created by the Institute of Management Accountants (IMA), where leadership competence includes soft (personal) skills such as motivating and collaborating with others, communications, change management, talent management, relationship management, negotiation, and conflict management.

Van Wart and colleagues (2019) have suggested that e-leadership requires leaders' awareness of current information technologies (ICTs), selecting suitable ICTs for the organization and for oneself, and technological competence in using those technologies (see Table 1). Van Wart et al. (2019) identified a need for six e-competencies that e-leaders require (SEC model). These competencies include e-communication skills, e-change management skills, e-social skills, e-team building skills, e-technological skills, and e-trustworthiness. While such competencies have been found to be prevalent in the context of the public sector, they are not found to be so in a business context per se. Finally, Müller & Klus (2021) emphasized leaders' ability to think and act entrepreneurially, their (self-)organization and IT skills, and the ability to motivate others. Leaders are expected to have a high degree of flexibility, commitment, and creativity. Furthermore, calmness is appreciated during the fast-speeding digitalization.

Even though studies on leaders' competence in the digital era exist (see Table 1), it seems there is no consistent theoretical leadership framework that covers all the competencies listed in the table. Therefore, this present study will not seek to contribute to any specific leadership theory as such but will rather seek to identify the dimensions of leadership competence needed for the digital age from the millennial business students' perspective. This information is relevant for business educators as well as businesses as the millennial business students are or will be leaders in the future.

## 2.2 Characteristics of the millennial generation

Since it is suggested that each generation has its own typical personality, comprising distinct models of behaviour and values that are dominant within that group of people (Magano et al., 2020), many authors have described the characteristics of the millennial generation. The millennial generation has many names including Generation Y, Generation Me, the Look at Me Generation and the iGeneration (Gabriellova & Buchko, 2021; Rosa and Hastings, 2018). However, the idea can be criticized that social categories such as occupation, age, generation, or gender, are suitable for categorizing people (Holliday, Kullman & Hyde, 2016), and results should be generalised with caution. Although generation stereotypes with certain characteristics provide a map for action, it is important to remember that stereotypes are generalizations which need to be viewed with caution (Fox, 2010; Rosa and Hastings, 2018). Still, Kultalahti (2017) states that although it is challenging to verify the differences between generations, and it is questioned that millennials are a coherent group, studying millennials' perceptions of working life is worthwhile.

Millennials have been named millennials as they were raised in the digital age in the new millennium (Gabriellova & Buchko, 2021). When one considers their character in the genera-

tional discussion, millennials are seen as able to use technology with ease and have adopted technology as an important element in their lives. Thus, technology has shaped millennials as a partly different generation compared to the previous age cohorts. In the discussion of millennials, technology is usually seen as very natural for millennials as they have spent their formative years with a variety of technologies, including the Internet and video games (see Gabrielova & Buchko, 2021; Shrivastava et al., 2017).

Some authors (Gabrielova & Buchko, 2021) make a distinction between the so-called late-millennials and early-millennials. Late millennials are now entering their mid-20s and early millennials are in their 30s. Therefore, it is not so straightforward to describe millennials as a coherent group, by for instance referring to stereotypes of millennials depicting them as a self-centred and disrespectful generation (Myers & Sadaghiani, 2010). On the other hand, in previous studies, millennials have been described as well-educated, sociable, optimistic, collaborative, open-minded (see Gabrielova & Buchko, 2021). Millennials have been described as having good homes and care in their childhood and their parents have tended to praise and give positive feedback to them. Therefore, they tend to have good self-esteem, feel confident and assertive, and they are longing for recognition and praise (Gabrielova & Buchko, 2021; Howe & Strauss, 2000).

Researchers have also studied how millennials behave in the workplace, how they should be led, and what they seek in a job (Roehling et al., 2011; Shrivastava et al., 2017). Tending to believe in equality and freewill, millennials, therefore, spurn authoritarian and inflexible hierarchical structures (Roehling et al., 2011). For instance, millennial employees seek meaning in what they do for a living, have a casual attitude to their supervisors, place a high value on their personal lives, and a flexible work environment (Shrivastava et al., 2017). In addition, the millennial workforce exhibits a desire for growth opportunities and promotion, competitive wages, variety in projects, and constant supervision (Shrivastava et al., 2017). Nevertheless, as far as this present study is aware, there is no previous research on the perceptions of millennial business students of the digital future and of the leadership competencies required to manage it.

### **3. Methodology**

With regard to methodology, this study applies a qualitative approach (Eriksson & Kovalainen, 2016) using focus group interviews and employing the Zaltman Metaphor Elicitation Technique (ZMET; Zaltman, 1997), which has been developed to encourage dialogue between participants (Olson et al. 2009).

#### **3.1 Data collection**

The data collected for this study was acquired through focus group interviews (Kitzinger & Barbour, 1999) during 2020–2021 with 28 graduate business students who participated in seven focus groups in a medium-sized Finnish university. To allow for more flexible scheduling and safety due to the pandemic situation, the focus groups' interviews were conducted using video-conferencing technology. The participants in this study were asked in the invitation to bring images (a picture) with them to the interviews/workshop that they felt represented their thoughts about leaders' competence needs in the digitalized future. In the Zaltman metaphor-elicitation technique ZMET (Zaltman, 1997; 2003) the interviewees are encouraged to take a picture with them to the interview. This is thought to facilitate the cognitive process of the participants and to enhance discussion (Coulter, Zaltman & Coulter, 2001). The ZMET technique exploits detailed interviews that enable the researcher to capture the thoughts and feelings of an informant about

the research problem more extensively (Coulter et al. 2001). Zaltman (1997) argues that many substantive research issues such as emotion, metaphor, nonverbal communication, and visual imagery are often missed or are misrepresented by previous and current methods of research. That is, the manner of thoughts that emerge can differ dramatically from how those thoughts are communicated to an audience (van Dessel, 2005). Therefore, having the participants collect visual images increases the likelihood that significant but previously unconsidered topics will be revealed and discussed (Zaltman, 1997). The ZMET interview enables asking informants to create a tangible expression of interpretations that they wish to share during the interview and finally, with the summary image(s), the participants create a composite of their thoughts and feelings associated with the topic (Woodside, 2017). However, the data analysis is based on the transcribed text of the focus group interviews, not the images as such.

In this study, each focus group interview invited three to five participants to discuss the effect of digitalization and technological innovations on leaders’ competence in the future. The interviewees were between 19 and 30 years of age and therefore our data focuses more on late millennials than early millennials (see Gabrielova & Buchko, 2021). There was an equal mix of female and male business students. Details of the participants’ backgrounds are shown in Table 2.

Table 2. Participants in the study

FOCUS GROUPS	PARTICIPANTS	MAJOR SUBJECT	GENDER	AGE
Group 1	Respondent A	International Business & Sales Management	Male	24
	Respondent B	International Business & Sales Management	Male	27
	Respondent C	Innovation Management	Male	25
	Respondent D	Accounting & Finance	Female	24
Group 2	Respondent E	International Business & Sales Management	Female	25
	Respondent F	International Business & Sales Management	Female	23
	Respondent G	Innovation Management	Male	23
Group 3	Respondent H	Innovation Management	Female	30
	Respondent I	Accounting & Finance	Female	24
	Respondent J	Accounting & Finance	Male	24
Group 4	Respondent K	Accounting & Taxation	Female	30
	Respondent L	Accounting & Taxation	Male	22
	Respondent M	Social Policy & Business	Female	23
	Respondent N	Management & Marketing	Female	19
Group 5	Respondent O	Business Administration	Male	23
	Respondent P	Environmental and Biosciences and Business	Male	30
	Respondent Q	Business Administration	Male	27
	Respondent R	Adult Education & HR	Female	27
	Respondent S	Innovation Management	Female	27

Group 6	Respondent T	Service Management	Female	27
	Respondent U	Service Management	Female	24
	Respondent V	Service Management	Male	23
	Respondent W	Accounting & Business Law	Female	23
	Respondent X	Accounting & Business Law	Male	23
Group 7	Respondent Y	Accounting & Taxation	Male	22
	Respondent Z	Accounting & Taxation	Male	27
	Respondent Å	Service Management	Female	24
	Respondent Ä	Service Management	Female	30

The duration of the interviews ranged from 65 to 100 minutes, and to ensure sufficient flexibility and open discussion—as is characteristic for focus groups—both semi-structured and open-ended questions were used to guide the conversation (Eriksson & Kovalainen, 2016; Kitzinger & Barbour, 1999). During the interviews, the discussion focused on leadership characteristics and competencies vital for digital age leadership, and the participants were asked to describe which leadership competencies, they considered critical in the future.

To begin, the participants explained why and how the pictures they had chosen best represented their feelings about future leadership and digitalization. A variety of ideas were represented in the pictures, e.g., teamwork, remote work, global networking, age diversity, gender, and colour, combining personal life and working life, powerful cartoon heroes, political leaders, etc. Next, the participants were asked to expand their thoughts on one of the pictures in any direction or dimension. The participants then explained what would start to emerge and how that would affect their thinking about the research topic. During the interviews, the atmosphere was relaxed, informal and conversational. Finally, after all the participants had presented their ideas using the pictures, they were asked to form a mutually agreed collection of three pictures that they believed best represented future leadership skills and competencies in the digital era. To ensure complete comprehension, the interviewer reflected and restated the interviewees' comments (Christensen & Olson, 2002).

The aim of the focus group method is to describe how the group members (people who have something in common) think or feel about a given topic (Krueger & Casey, 2014). The pictures were used in focus group interviews as a trigger to elicit the discussion on leadership in the digital era. In this study, each respondent first presented their own image and then the group eventually selected 1–3 pictures that best illustrated the group's shared understanding of future leadership in the digital era. The images were used in the focus group interviews as a trigger to elicit the discussion on leadership in the digital era. Elicitation is a technique used to enable participants to think and say how they perceive the topic. The pictures provide clues to get the interviewees to express their thoughts and feelings (Woodside, 2017) rather than the researcher providing the explanation.

To avoid the challenges related to the spontaneous and unpredictable nature of the focus group research, these problems (e.g., some individuals dominating the discussion) were identified in advance. For example, the moderator ensured that all members of the group had an opportunity to contribute to the conversation, without being under pressure to do so if unwilling (Sim & Waterfield, 2019). Then the moderator asked questions, listened, kept the discussion on track, and ensured that everyone had a chance to share their views (Krueger & Casey, 2014).

### 3.2 Data analysis

Following the collection of the data, the focus group interviews were transcribed, and the transcriptions were analysed with a theme analysis (Braun & Clarke, 2006). A thematic analysis refers to a method used to identify, analyse, and report patterns from data (Braun & Clarke, 2006). When analysing the data of this study, the transcribed texts were first carefully read to obtain a holistic understanding of the data. Following this, the initial codes were formed in relation to the research question by forming them according to the millennial business students’ perceptions of the leadership competencies needed for the future digital age. Then, the data were systematically coded. All in all, we found 27 different codes. After this, we connected similar codes in illustrative sub-categories (Braun & Clarke, 2006). Finally, appropriate sub-categories were connected to five main dimensions. To represent the participating millennial business students’ perceptions of leadership competencies, relevant quotations from the data were selected. The illustrative excerpts from the data are used to verify the researchers’ interpretations.

To illustrate the analysis, the audit trail of conceptualizing the humanity dimension is presented as an example in Table 3. First, the millennial business students’ perceptions related to leadership competencies were identified and coded in the transcribed text. The codes related to *leaders’ ability to be a casual, approachable, and coaching mentor*, and to have a *sense of humanity*, as well as the *ability to detect and understand employees’ emotions and personalities*, in addition to having *emotional intelligence*. These codes were then connected with a sub-category called *emotional intelligence*. Besides emotional intelligence, two other sub-categories were found (the ability to motivate others and self-reflection skills), which were connected to form the final humanity dimension.

**Table 3.** Example of the data analysis focusing on the humanity dimension

EXAMPLE FROM THE DATA	CODE IN THE DATA	SUB-CATEGORY	DIMENSION
<p>“It is precisely a leader’s task to secure ... the communality in the job. Unofficial encounters ... coffee breaks are important. A leader should interact with the team at the same level, for example, by participating in quizzes at lunch breaks.” (Respondent E, Group 2)</p>	- Ability to be a casual, approachable, and coaching mentor	Emotional intelligence	Humanity dimension
<p>“A great leader is someone who knows people and is a good guy.” (Respondent J, Group 3)</p>	- Sense of humanity		
<p>“It is not easy for a leader to ‘read’ how the subordinates are doing if they can only reach out to each other remotely and meet on a computer screen.” (Respondent W, Group 6)</p>	- Ability to detect and understand employees’ emotions and personalities and have emotional intelligence		

When considering research ethics, the participants are presented anonymously in this study. Furthermore, the interviewees participated voluntarily in this study, and they had the opportunity to withdraw at any stage. The research participants were also informed of the aims of the research, how the research data would be analyzed, and how the findings would be reported.

## 4. Findings

To answer the research question of this study, the findings are organized to explain millennial business students' perceptions of leadership competencies in the digital age of the future.

### 4.1 Millennial business students' perceptions of leadership competencies in the digital age of the future

The findings are illustrated in Table 3 below. We found five dimensions indicating the leaders' competencies the interviewees considered most important in the digital age of the future: the humanity dimension, the remote work dimension, the technological and digital dimension, the business foresight dimension, and the communication dimension.

**Table 4.** Findings composed of codes, sub-categories and dimensions.

CODE IN THE DATA	SUB-CATEGORY	DIMENSION
<ul style="list-style-type: none"> <li>- Ability to be a casual, approachable, and coaching mentor</li> <li>- Sense of humanity</li> <li>- Ability to detect and understand employees' emotions and personalities and have emotional intelligence</li> </ul>	Emotional intelligence	Humanity dimension
<ul style="list-style-type: none"> <li>- Ability to establish a sense of communality</li> <li>- Ability to detect value in employees' expertise and knowledge</li> <li>- Ability to motivate and engage employees</li> </ul>	Ability to motivate others	
<ul style="list-style-type: none"> <li>- Ability to question one's own capabilities and reflect on one's behaviour</li> <li>- Ability to improve one's own skillset and diverse knowledge</li> </ul>	Self-reflection skills	
<ul style="list-style-type: none"> <li>- Understanding the nature of remote work (e.g., working from home, office, or summer house)</li> </ul>	Remote work conditions	Remote work dimension
<ul style="list-style-type: none"> <li>- Time management skills</li> <li>- Self-management skills</li> </ul>	Work-life balance	
<ul style="list-style-type: none"> <li>- Ability to make decisions about which data to collect</li> <li>- Ability to manage reputation through data</li> </ul>	Data management skills	Technological and digital dimension
<ul style="list-style-type: none"> <li>- Understanding robotics, AI, and other technologies</li> <li>- Ability to lead with diverse technologies</li> </ul>	Managing robotics	
<ul style="list-style-type: none"> <li>- Ability to detect future business opportunities</li> <li>- Ability to detect trends and news about trends</li> <li>- Ability to question and test current strategies</li> </ul>	Strategic understanding	Business foresight dimension
<ul style="list-style-type: none"> <li>- Ability to be agile to enable change</li> <li>- Ability to adapt to different roles depending on the leadership situation</li> </ul>	Change management agility	

- Ability to show interest and caring to employees - Ability to create meaning in work	Interpersonal communication skills	Communication dimension
- Ability to communicate clearly and effectively about strategy and change - Ability to communicate using digital channels and tools - Ability to activate employees	Internal corporate communication	
- Ability to justify the business's legitimacy to external stakeholders - Ability to apply social media in an appropriate manner to support good leadership	External communication	

4.1.1 Humanity dimension

The first dimension, humanity, included the sub-categories related to a leader’s emotional intelligence, the ability to motivate others, and self-reflection skills. According to the interviewees, the ability to identify employees’ emotions, work conditions, and taking an interest in employees’ personal lives were the biggest concern. The interviewees believed that when most of the social interaction between executives and employees takes place on digital platforms, a leader’s ability to interpret people’s emotions becomes more significant. Even on a computer screen, remote work makes it more crucial for a leader to detect employees’ true meanings and feelings. A good leader should give an impression of being laidback, easily approachable, and act more like a coaching mentor, and be able to show emotions and a sense of humanity. Due to the continued virtual communication trend in the future, detecting the employees’ genuine emotions and feelings is more complex and difficult. One of the interviewees explained this:

*“It is not easy for a leader to ‘read’ how the subordinates are doing if they can only reach out to each other remotely and meet on a computer screen.” (Respondent W, Group 6)*

The interviewees also indicated that a supportive role enhances survival in the digital age. According to the interviewees, leaders should also be aware of the health risks associated with digitalization and remote work. Thus, a leader’s responsibility to create an organizational culture and work ethics was highlighted: one that would pre-empt burnouts, social isolation, and both physical and mental illnesses. Indeed, the interviewees expected future leaders to be good guys who both help and support their followers. This was explained for instance as follows:

*“A great leader is someone who knows people and is a good guy.” (Respondent J, Group 3)*  
*“It is precisely a leader’s task to secure ... the communality in the job. Unofficial encounters ... coffee breaks are important. A leader should interact with the team at the same level, for example, by participating in quizzes at lunch breaks.” (Respondent E, Group 2)*

As well as this, the interviewees pointed out that work communities are being disrupted due to digitalization, and that employees are starting to demand more from their job and their employers, which reflects a leader’s ability to detect the value in their employees’ expertise. Furthermore, future leaders will need to find new ways to motivate their employees.

The findings drawn from the data suggest leaders should constantly reflect on and question their own skills and capabilities. Consequently, as the following response illustrates, the interviewees stressed that leaders should be open to new opportunities to learn and take the

initiative to develop themselves rather than solely rely on old habits:

*“I’d say [leaders] must be open to developing and enhancing their expertise in terms of technology and digitalization ... you cannot just state that we’ll continue doing things like we always have ... leaders who deny change will not succeed in the long run.” (Respondent G, Group 2)*

#### **4.1.2 Remote work dimension**

The second dimension, remote work, includes the sub-categories of remote work conditions and work-life balance. Due to the COVID-19 pandemic, remote work increased both suddenly and rapidly in 2020 and is thought to have an enduring effect on leadership. Based on the interviewee responses, remote work is seen to be less expensive for the employer since physical offices are no longer required and, in this sense, technology-mediated work is cost-effective.

Furthermore, the essence of physical offices is changing, as the following responses illustrate:

*“Work does no longer happen only in one place, you may work in your summer cabin, for example.” (Respondent U, Group 6)*

*“Will there be any offices at all, or are there only places to get together?” (Respondent Å, Group 7)*

Other examples of skills considered important in future leadership were those related to time management and self-management. Concerning the relationship between work and an employee’s free time, the interviewees wondered whether there was any evidence so far to suggest how remote work will affect employees’ well-being:

*“As the separation between work and free time continues to blur ... and you take it as your responsibility to respond to every single work matter and be available 24/7... in the long run, this’ll have an impact on people’s well-being and hinder living in the moment.” (Respondent K, Group 4)*

#### **4.1.3 Technological and digital dimension**

The third dimension, the technological and digital dimension, included data management skills in addition to managing robotics, and the interviewee responses stressed the significance of data analytics and other technology-related studies in the future of work. As well as this, the interviewees emphasized that current leaders need to be open to technological advancements and to develop themselves in this field because a leader with no competence in digital or technological applications was seen by the interviewees to pose a risk to the smooth operation and information flow of a business. Additionally, a leader denying digitalization, technology, and change was considered by the interviewees to be problematic for business success, as illustrated in the following responses:

*“... denying change and not staying open to enhancing one’s own competence is a critical pitfall.” (Respondent G, Group 2)*

*“A leader who isn’t competent with the latest technology endangers the information flow within a company.” (Respondent C, Group 1)*

According to the participants of this study, technology had been influential for so long that they did not expect any major advancements to happen in the near future that would drastically change the way businesses operate:

*"I don't think that digitalization or technology will really change current leadership models a lot as digitalization and technology have been around in organizations for so long ... probably the value of data and expert work will increase." (Respondent G, Group 2)*

In their responses, the interviewees agreed that robotics and artificial intelligence would make up major parts of the supply chain and workflow in the future. Although many of the interviewees stressed that future leaders need to lead not only people but also technologies, the interviewees considered leading people to be the more important requirement. Furthermore, being competent in technology was thought to open new opportunities for younger employees to step up to positions of leadership.

#### *4.1.4 Business foresight dimension*

The fourth dimension, business foresight, refers to strategic understanding and agile change management skills. When it comes to strategic understanding, the interviewees believed that leaders will need to detect future business opportunities, business trends as well as news concerning trends. In addition, leaders need to understand that to remain in competition and maintain a competitive advantage, they must frequently question and test their current strategies:

*"Leaders should listen to discussion and news about big data ... and get to know people who know something about it rather than burying their heads in the sand." (Respondent D, Group 1)*

Regarding change management agility, the interviewees reasoned that to successfully navigate a competitive environment, leaders must be "agile and brave" enough to enable change within an organization:

*"I'd say that a leader should demonstrate a transformative and optimistic attitude toward change while being agile, that is, to be able to adapt to new situations and contexts." (Respondent H, Group 3)*

Furthermore, the interviewees emphasized a leader's ability to adapt to different roles depending on the leadership situation. For example, while an agile and transformative attitude towards change was required, at the same time many interviewees believed that the traditional leadership traits would also be required in the future, with one respondent stating that, a leader "should be like a lighthouse" (Respondent A, Group 7), showing the way firmly for employees.

#### 4.1.5 Communication dimension

The fifth dimension, communication, included three sub-categories: interpersonal communication, internal corporate communication, and external communication. First, interpersonal communication skills were emphasized in the data, especially in relation to a radical increase in remote work due to the COVID-19 pandemic situation. As remote work and communication through technical mediated channels were seen to be the new normal in the work environment in the future, a leader's interpersonal communication skills will be highly important. From the results of the focus groups, interpersonal communication skills were tied to social and cultural intelligence which the interviewees suggested would translate to leaders being sensitive to employee well-being and efficiency. This was explained as follows:

*"The most important skill in leadership is the ability to communicate with people."  
(Respondent M, Group 4)*

*"It is important to be able to be present for the people. I'm sure there's going to be many different aspects and layers to this...there will be more coaching. A leader's task is to keep all subordinates aboard so that no one drops out (from the work community)."* (Respondent A, Group 1)

As well as this, the interviewees emphasized a leader's ability to ask their employees questions such as how they are doing to create meaning for the job and the employees. In particular, one interviewee stated the following:

*"In a world where we have everything, people start to search for meaning and leaders need to... create meaning for the everyday operations in an organization."* (Respondent F, Group 2)

Regarding the second sub-category, internal corporate communications, the interviewees perceived that leaders of the future will need to be clear in their communication about strategy and goals. Additionally, in the future, digital channels and tools will make up most of the corporate communication channels. The ability of the leaders of the future to utilise these channels and tools effectively was underlined by the interviewees. Since some older leaders lack competence in digital channels, the interviewees in the focus groups considered them not only as posing a risk to the organization's data infrastructure, but also as being unprofessional:

*"A leader should communicate clearly to the employees and reinforce clear operating models."  
(Respondent D, Group 1)*

Another important skill in this sub-category expressed in the results was the ability to activate employees. To be able to reach employees and to communicate through digital channels was perceived as a challenge for leaders in the future. Therefore, a leader should be able to activate the employees and make them understand how their own behaviour impacts the work community and atmosphere in the workplace. To aid this, employees should be encouraged to express their opinions and feelings.

Regarding the third sub-category of leaders' communication competence, external communication, a leader's ability to communicate the *legitimacy* of the company to external stakeholders was stressed as important in the interviewee responses. According to the interviewees, digitalization has made the world more transparent, giving rise to the need for more fluent

corporate communications. The following response reveals the interviewees' perceptions:

*"Due to the competitive circumstances that digitalization has given rise to...leaders need to be able to communicate their business's legitimacy...and right to make a profit." (Respondent D, Group 1)*

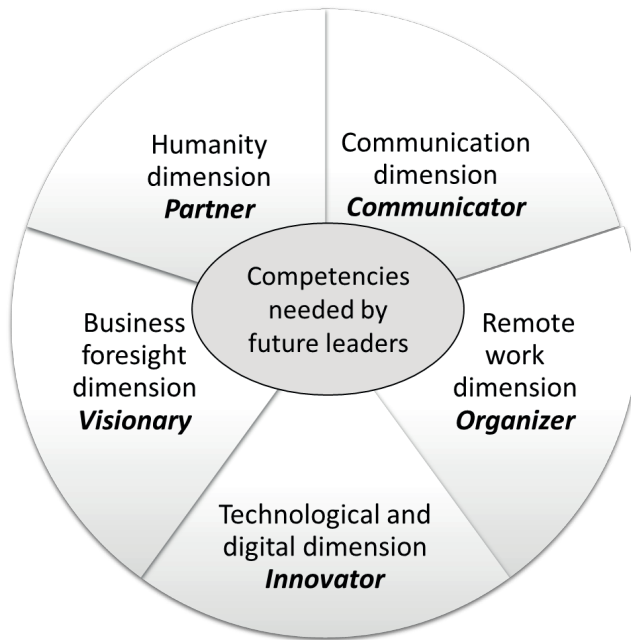
According to the interviewee responses, a leader should make a clear decision over whether to be on social media at all and that there should be no in-between position. If a leader decides to be present on social media, then he or she should be a leader there as well, thus enabling leaders such as Donald Trump or Elon Musk to acquire an almost infinite number of followers. Social media offers a platform for anyone, even the most unscrupulous of individuals, to become a leader, if not necessarily a business leader. This was not considered a benefit by the interviewees, but rather as an unfortunate side effect of digitalization:

*"Social media and technology may enable more unscrupulous people to become leaders or bring out characteristics that in real-life people would frown upon." (Respondent D, Group 1)*

## 5. Discussion

The aim of this research was to investigate how millennial business students perceive the competence needed by leaders in the digital age of the future. The findings indicate that, according to millennial business students, the main competencies leaders will need in the digital age constitute the humanity dimension, the remote work dimension, the technical and digital dimension, the business foresight dimension, and the communication dimension. Consequently, business students today are found to place great value on humanity and communication, rather than merely stressing the positive aspects of digitalization and technology.

Our findings contribute to the previous leadership literature (Clerkin, 2015; Westerman et al., 2014; Larjovuori et al., 2020; van Wart et al., 2019) in that we have focused on future leadership competence associated with the digital future from the perspective of millennial business students. Focusing on students of the next generation is essential since they will be the fundamental players in business to come (Howe & Strauss, 2000). Four of the leadership competence dimensions found in this study (the communication, remote work, technological and digital, and business foresight dimensions) have also been mentioned in the previous literature (Kohnke, 2017; vom Brocke et al., 2018; Clerkin, 2015; Van Wart et al., 2019), although highlighted in a different manner. However, this present study expands our understanding of a leader's competence and introduces a new dimension to leadership competencies, namely the humanity dimension. Previous studies focusing on leaders' competence (see Table 1) have not explicitly pointed out this aspect before. To illustrate the competence needed and the roles of future leaders in the digital future, reference will be made to the following figure (Figure 1) when discussing the findings of this study in relation to previous studies.



**Figure 1.** Future leaders' areas of competence in the digital era

This study has contributed to the previous literature with the addition of the humanity dimension, which includes a leader's emotional intelligence, the ability to motivate others, and self-reflection skills. According to millennials, the ability to identify people's emotions, work conditions, and take an interest in their personal lives were the greatest concern for leaders. Our findings indicate that leaders need to show humanity, understand their employees' emotions and personalities, and show emotional intelligence, even virtually when meeting from a distance. While major parts of the current literature on the future of leadership focus on areas of technical competence, risk-taking, and creative or innovative leading methods (Westerman et al., 2014; Horney et al., 2010; Clerkin, 2015), the data obtained from this present study reveals the importance of humanity, and this can be used to argue that a future leader should be more like a *partner* for employees.

Besides humanity, our findings indicate that millennial business students stressed the importance of the communication dimension. Since interpersonal communication refers to the way in which people negotiate meanings, identity, and relationships, and how they share information and feelings through verbal and nonverbal person-to-person communication (Baxter & Braithwaite, 2008), possessing such skills means that a person can exhibit appropriate, effective, and ethical verbal and nonverbal communication behaviour in a certain context (see Koponen, Julkunen & Asai, 2019). Examples of interpersonal communication skills revealed as processes in a person's behaviour (Hargie, 2010) include listening, asking questions, showing empathy, providing social support, interpreting feelings, negotiating, and managing conflict (e.g., Koponen et al., 2019; Purhonen, 2012; Spitzberg & Cupach, 2002). This present study's findings resonate with the idea that millennials respect leaders who encourage, listen, and support their followers (Gabriellova & Buchko, 2021).

Besides interpersonal level communication, our findings indicate the importance of internal corporate communication and external communication, focusing on the use of social media, for example. Today, leaders are increasingly expected to handle external communications via social media (e.g., Twitter, LinkedIn, Instagram), and researchers are increasingly investigating CEOs' social media use regarding their social disclosure on Twitter, for example (see Yue et al., 2020). Therefore, based on the findings, this study proposes that a leader will need to be a good *communicator* in the future.

In addition to understanding remote working conditions and the importance of a work-life balance in the remote work dimension, the findings of this study indicate that time management skills and self-management skills are becoming more important than before. Globally, remote work increased rapidly in 2020 due to the COVID-19 pandemic, which is thought will have an enduring effect on leadership. For instance, the latest data regarding remote work in Finland (Blomqvist et al., 2020) indicates that Finns have been satisfied with remote working conditions, but social aspects of work were among the more challenging aspects of adjusting to remote work. Remote work was found to be the cause, for example, of feeling isolated from co-workers as well as society, and missing opportunities to develop workplace friendships (Blomqvist et al., 2020). Taking these aspects into account, when leading people, future leaders must be good *organizers* and provide opportunities for both task-related and social meetings between employees, which is supported by the findings of this present study.

Although the technical and digital dimension was considered important for future leaders in this study, the millennial business students—who are often referred to as digital natives (Howe & Strauss, 2000)—seemed not to value digitalization and technological advances as much as emphasizing the human aspects of the work of future leaders. Still, they considered data analytics, data management skills, and the ability to manage robotics important. Our findings highlighted that the current leaders need to be open to technological advancements, a field in which they need to be receptive to develop themselves. As the first generation to have grown up with technology, millennials have a more natural relationship with it (Becton et al. 2014; Gong et al. 2018). Therefore, they consider it important to have an open attitude towards technology and a willingness to innovate and learn new forms of technology. When it comes to the technological and digital dimension, this study proposes that a future leader is expected to be a good *innovator*.

Strategic understanding and agility concerning change management are part of the business foresight dimension, and based on this study's findings, future leaders will need to detect future business opportunities, business trends, as well as news concerning trends. Leaders will need to understand that to remain in competition and maintain or restore a competitive advantage, current strategies need to be reformed frequently. These findings are supported by previous studies, which have also indicated the importance of strategy and planning as a part of management accounting competence (Lawson, 2019). Furthermore, the COVID-19 pandemic has forced companies to rapidly change and renew their business models (Breier et al., 2021), and therefore it is essential that future leaders are *visionaries* who can innovate new strategies and business models.

To conclude, the study findings highlighted the humanity dimension as a unique competence area in future leadership, while these aspects were not similarly highlighted in previous research regarding digital age leadership since the previous research has tended to emphasize more operational, cognitive, and technical areas of competence (Horney et al., 2010; Moldenhauer & Londt 2019; Westerman et al., 2014). One reason for this might be that, commonly, the

informants in previous studies were CEOs and other executives (Westerman et al., 2014; Larjovuori et al., 2018; Morikawa 2017), whereas this present study focused on millennial students.

Even though it is important to remember that stereotypes are generalizations that need to be viewed with caution (Fox, 2010; Rosa & Hastings, 2018), it has been suggested that each generation has its typical personality (McCafferty 2003). Similarly, a generation's position in the world affects their thinking. The question then is, which common values and experiences drive millennial students to emphasize humanity and communication skills? One explanation for this could be the millennials' childhood. Millennials are a generation whose parents spent more time at home and whose knowledge of child psychology was more advanced compared to their predecessors (Gabrielova & Buchko, 2021; Howe & Strauss, 2000). Therefore, millennial children were given a lot of shelter and care at home, which might contribute to their sense of caring for others as well. Additionally, millennials have been reported to be team-oriented (Howe & Strauss, 2000; Myers & Sadaghiani, 2010), which could also explain the interviewees' strong emphasis on interpersonal communication skills, socialising, and getting to know their peers in the findings. Thus, our findings do not support the stereotypes about millennials depicting them as a self-centred and disrespectful generation (Myers & Sadaghiani, 2010). Additionally, our findings do not support the idea that millennials are not willing to conduct teamwork (Rosa & Hastings, 2017).

The findings of this present study allow one to propose that alongside digitalization the next big wave in business could be humanization. Therefore, both current and future leaders of any business should continue to care for their employees, more than before (see also Blomqvist et al., 2020). Moreover, these findings emphasize the importance of interpersonal relationships and humanity in the workplace. Even if it seems inevitable that AI and robotics will become a significant part of the workforce (Marnewick & Marnewick, 2020), leaders still need to restore their interpersonal and social skills and pay attention to human relationships inside and outside the employer organization. Indeed, while robotics will make more working tasks routine, people will have more time to carry out work that requires competence and characteristics explicit in humans (e.g., creativity, feelings, empathy, interpersonal interaction, problem-solving; see Huang et al., 2019; Lawson, 2009; Marnewick & Marnewick, 2020).

### 5.1 Managerial implications

The data obtained from this study may help higher education institutions in developing and renewing their leadership studies. Management scholars have a crucial role in installing the right mindset at the nascent stage of managerial development of future leaders in business schools (Acharya et al. 2021). For example, it could be considered and reflected in the existing curriculum to offer studies on handling diverse communication situations, showing humanity and enhancing emotional intelligence or understanding, and leading remote work. Acharya, Garcia-Tapiäl and Jena (2021) state that multiple pedagogies (incident learning, simulations, case analysis) should be applied in business schools for attitude development, e.g., a sense of ownership should be taught, leading future leaders to work for the greater good and becoming more 'Society-Centred'. Furthermore, as managers are hiring millennials and leading them in the workplace, they can benefit from these studies. Since millennials perceive that a leader can be remote in the digital environment, but not necessarily distant for them, this study indicates that millennials appreciate leaders who take care of their employees and offer social support.

## 5.2 Limitations and suggestions for future research

Due to the limited scope and depth of this study, there are some constraints to the generalizability of the study results. First, the research was only conducted in a single university. Therefore, to gain more variety in the results, representatives from multiple universities could participate in similar future studies. Furthermore, to gain a more holistic understanding of a leader's competence, the perspectives of managers could have been added as they have more experience in leading people in today's contemporary working environment. Moreover, these findings indicate five important dimensions of future leaders' competence, but it does not explicitly separate these dimensions into knowledge, skills and attitudes, which is considered to be the traditional understanding of competence (Crawford, 2005; Loufrani-Fedida & Missonier, 2015; Magano et al., 2020). Still, this study argues that skills and knowledge are embedded in the communication dimension, remote work dimension, technological and digital dimension, and business foresight dimension, whereas the humanity dimension is mainly concerned with affective aspects of competence. In future studies, the research stream of interest in millennials' perceptions of leadership and humanity practices could be conducted in organizations. Furthermore, it would be interesting to explore cultural aspects and the values of millennials in multiple contexts.

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## APPENDIX 1 - INTERVIEW QUESTIONNAIRE

### BACKGROUND QUESTIONS:

Name? Age?

Where are you studying and what is your major?

At what stage are your studies?

Which branch would you prefer to work in?

Do you dream of becoming a supervisor/running a business?

### MANAGEMENT IN THE FUTURE

What things do you think will change in management, technology, and work over the next ten years?

Would you tell me about the image? Why did you choose this image? How does it describe your thoughts on how you think technology and digitalization are changing leadership in organizations?

The interviewer asks each group member to expand the frames of a single image and describe what it would look like outside the image if the image were larger. The interviewee is further asked to make interpretations describing the topic under study.

Can you say three things that won’t change in the next ten years?

In your opinion who is responsible for leading the company’s digitalization?

What would a typical leader look like in the future? (gender, hobbies, income level, education, dress etc.)

What fears or threats do you think are associated with the technological future?

And what opportunities do you associate with the same future?

What do you think should/could be done today to achieve the best possible scenario?

What do you think leadership will be like in 10–15 years? What would it be like to be a leader?

The interviewer asks the participants in the group interview to assemble a set of three images.

Together, could you put together a set of three images that best represent your common idea of future leadership skills in the digital environment. Would you tell us why you chose these particular images and what ideas are associated with this as a whole?

# *Data Analytics and Financial Forecasting: A Field Study from Finnish Enterprises*

Timo Hyvönen, Lauri Lepistö and Sanni Mäki

## **Abstract**

This explorative study investigates the current state and usage of recent technological advancements in financial forecasting. Data analytics has received increasing interest amongst practitioners and researchers in recent years and it has been argued that data analytics will enhance the development and evolution of budgeting processes. The empirical materials of this study come from interviews conducted in six Finnish enterprises. Results indicate that whilst practitioners consider the importance of improving forecasting processes, they have reservations regarding the potency of data analytics. Overall, our findings suggest that the shift towards the application of data analytics in financial forecasting is not yet taking place.

## **Keywords:**

big data, data analytics, enterprise resource planning systems, financial forecasting, management accounting

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## 1. Introduction

This paper focuses on micro-level business foresight, especially the possibilities offered by contemporary information technologies for executing management accounting. During recent decades, researchers and practitioners have shown interest in the development of proactive business expertise (Kaivo-oja, 2021). In line with this, enterprises of all sizes have implemented enterprise resource planning (ERP) systems to replace fragmented legacy systems, thus improving the efficiency of their organisational processes (e.g. Granlund and Malmi, 2002; Hyvönen 2003; Lepistö, 2014; Sardo & Alves, 2018; Jaatinen et al., 2021). More recently, data analytics has been at the forefront of the latest developments in management technology (Wadan and Teuteberg, 2019; Youssef & Mahama, 2021). According to McAfee and Brynjolfsson (2012), the emergence of big data analytics can be perceived as a form of management revolution due to its potential to bring radical improvements to an organisation's performance, operations and culture. Despite the indisputable fascination with data analytics in public discussions, incumbent enterprises continue to face considerable challenges in transforming the idea of data analytics into action. For such organisations, data analytics can be considered a form of potentially transformative but elusive technology (Caesarius and Hohenthal, 2018).

'Data analytics' refers to the process of 'computing to gain insights from data'; hence, the focus of data analytics is to improve decision-making rather than automatise processes (Nielsen, 2018). In this respect, data here include all kinds of data that vary in terms of volume, velocity, and variety (McAfee and Brynjolfsson, 2012). Data analytics is sometimes categorised into three dimensions. Descriptive analytics is the simplest version of data analytics, as it refers to the use of past descriptive statistics. Predictive is the next step in knowledge creation from data, as the use of predictive and probability models characterise it. Prescriptive analytics recommends solutions based on the results of descriptive and predictive analytics and has links to optimisation (Appelbaum et al., 2017; Greasky, 2019).

As data analytics is inherently future-oriented and aims to solve complex issues, its potency has been recognised in the field of budgeting and forecasting. Studies have argued that management accountants must focus on predictions and forecasts (Hyvönen et al., 2015; Nielsen, 2018; Youssef & Mahama, 2021) and that further research on the impacts of data analytics on budgeting and forecasting is needed (Rikhardsson and Yigitbasioglu, 2018; Bergmann et al., 2020). According to Warren et al. (2015), big data will enhance the development and evolution of budgeting processes, and new streams and forms of data may even advance beyond budgeting practices. These openings are worthy of consideration, as budgeting has been regarded as a primary management control mechanism amongst enterprises (Libby and Lindsey, 2010), despite the introduction of rolling budgets and beyond budgeting (Hansen, 2011). Huikka et al. (2017) investigated the initiation phase in the development projects of forecasting. They found that enterprises are not always satisfied with their ERP systems, especially with regard to sales budgeting based on sales forecasting. Thus, enterprises must decide between the integration of forecasting tools into the existing ERP system or the acquisition of a separate system for forecasting.

Earlier studies have increasingly encouraged further investigation into the use of recent technological advancements in forecasting (Nykänen et al., 2016; Rikhardsson and Yigitbasioglu, 2018; Wadan & Teuteberg, 2019). Building on this literature, the present study investigates the current state of financial forecasting in Finnish enterprises and poses the following research question: How is the emergence of data analytics affecting financial forecasting in enterprises?

## 2. Methodology

For the purposes of this study, we chose the qualitative research method, which is considered suitable when answering research questions starting with ‘why’ and ‘how’ (Agee, 2009). Moreover, the qualitative research approach is suitable for studying emerging phenomena that are relatively novel (Ryan et al., 2002). In addition, we used the field study method, which has been previously applied to explore new areas and provide preliminary input from which more intensive case study or survey research with greater breadth could continue (Lillis and Mundy, 2005). Thus, our study can be considered explorative.

Our field enquiry focuses on six Finnish enterprises evenly representing both business-to-consumer and business-to-business (B2B) industries. From each enterprise, we interviewed a participant who was responsible for financial forecasting processes or who had the best expertise regarding the matter. The roles and positions of the interviewees are presented in Appendix 1. Both medium and large-sized Finnish companies were selected for our study as according to our previous knowledge these kinds of enterprises have more realistic opportunities to develop sophisticated IT systems. Four of the companies are publicly listed. The method followed the format of theme interviews. Each interview lasted from 45–90 minutes and was recorded, except for one (interviewee #4). The interviews were later transcribed word-by-word, and the transcriptions were later checked by the interviewees in question. Table 1 provides information on the interviews and their companies (the interview guide is available from the authors upon request).

**Table 1.** Details of the interviews

	DATE	DURATION (MINS)	JOB TITLE	TURNOVER (MEUR AS OF 2020)
#1	February 2020	45	Vice President, Analytics and Customer Data	>9,000 (listed company)
#2	February 2020	45	Vice President, Group Business Control	>1,000 (listed company)
#3	March 2020	50	Senior Solution Consultant	>2,500 (listed company)
#4	March 2020	90	Chief Financial Officer	>20 (non-listed company)
#5	March 2020	50	Chief Financial Officer	>100 (non-listed company)
#6	April 2020	45	Chief Financial Officer	>200 (listed company)

Data analysis was informed by the findings of earlier research on the topic, but the process can be characterised as inductive. First, the transcribed interviews were carefully read by all the authors. Then, distinctive themes were identified from the empirical materials. As a result, the following four themes emerged: financial forecasting, the role of data in financial forecasting, the use of data analytics in financial forecasting, and data analytics and its possibilities. Next, we formed a coherent description that discusses the state of financial forecasting in six enterprises. Authentic quotes from interviews, which were translated from Finnish, were used in the next section. Some details were anonymised to protect the identities of the enterprises involved in the study.

### 3. Findings

At the beginning of the interviews, we observed that the forms of traditional budgeting were used in all six enterprises. Enterprises tend to rely on annual budgeting in which budgets are compiled for the next 12 months. The interviewees perceived the synchronisation of the budget period with the accounting period as practical:

We have organised forecasting so that we make an annual budget that is compiled in autumn, and the board of directors handles next year's budget in December of the current year at the latest. We make a budgeted income statement, cash budget, capital budget and sales budget for our accounting period, which consists of one calendar year. (#5)

We have not yet fully given up annual budgeting, as it provides a good platform [for financial planning] as far as our accounting period is a calendar year. (#6)

Alongside annual budgeting, most enterprises use rolling budgeting in which the budgeting period varies from the next month to the next quarter year. One interviewee commented that, until recently, rolling budgeting has made a real breakthrough in practice:

The thing that has progressed quite extensively is the rolling budgeting. We discussed this when I was in business school, so it was not a new thing. But now, firms are really applying it. Nevertheless, budgeting processes are prone to be burdensome (#3).

During the interviews, we observed that the interviewees used the terms 'budgeting' and 'forecasting' somewhat interchangeably. Unsurprisingly, all interviewees pointed out that forecasting processes should reflect the qualities of the business. Sales forecasting was especially perceived as an important—albeit challenging—task. Interviewee #2 revealed that the recent profit warnings were caused by the difficulties and weaknesses in the company's forecasting processes. Generally speaking, it can be argued that interviewees naturally see sales forecasting as an area that could benefit from data analytics:

The main challenge in forecasting is data analytics and understanding the most important issue, which is sales composition. (#6)

Interviewees reported that historical data remained the primary source for forecasts. Enterprises commonly use historical data in their forecasts by incorporating different variables into them. Enterprises that sell directly to consumers obtain their data from customer relationship management systems, including loyalty programmes, whilst enterprises that operate in B2B environments utilise data available on their ERP systems. However, many interviewees reported that their enterprises attempted to complement internal historical data by using external sources. Especially, interviewee #1 affirmed that the statistical data provided by Statistics Finland, the economic outlooks of foreign research institutes, and weather forecasts were useful sources. Moreover, enterprises are increasingly attempting to use web browsing data and censored data in forecasting.

Our interviewees also commented that their enterprises nurtured a genuine interest in data analytics. However, the variety of information systems leading to data fragmentation was considered a primary obstacle to data analytics endeavours:

One thing that hampers our financial forecasting and monitoring is that we do not have a common ERP system. We do not have integrated finance master data in the background, and our data are too scattered. We have just moved on and have begun to harmonise data. (#2)

When you collect data to utilise it, such data should be correct. Some master data exercises, like data cleansing and data quality, may occur, but if you begin talking to businesses about them, it is considered terribly boring IT stuff. (#3).

Nevertheless, the interviewees admitted that many factors affect forecasting. In addition to possible coincidence, the person in charge of forecasting or management may choose those forecasts and scenarios that are in line with their interests. Interviewee #4, in particular, mentioned that forecasting is susceptible to behaviour resembling game playing.

Management support is always important to forecasting. The quality of forecasts depends on the meticulousness of people. At the end of the day, it does not depend on the [forecasting] tool, but on the honesty and concentration of people who prepare the forecasts. (#5)

Currently, enterprises have formed in-house forecasting systems that are not linked to ERP systems. Most enterprises intend to replace extant forecasting systems with applications that enable data integration. Interviewee #5 stated that their company has made considerable investments to procure a new forecasting system that is capable of integrating data from various sources, performing simulations using many variables and segmenting both customers and markets more accurately compared to the legacy system. Some interviewees also commented that the emergence of data analytics is a critical factor that would drive forecasting projects in the future:

In the field of data analytics, we are having an ERP experiment, and the whole reporting environment is [expected to] change. We are counting quite much on the fact that we could [integrate] more data analytics into it. (#6)

Arguably, most of the enterprises in our sample had no concrete intention to harness data analytics for financial forecasting. Some interviewees commented that the characteristics of the business pose challenges to data analytics, whilst others underscored the need to first improve organisational processes and structures. Moreover, problems with existing data were also mentioned. Only one enterprise has purposefully attempted to develop data analytics in financial forecasting:

At the moment, we are, for example, trying to make with our artificial intelligence team a tool that could better deal with sales forecasts and scale them [forecasts] for different purposes. So, we are trying to prepare one forecast that would benefit as many as possible. (#1)

The interviewees also commented that the business environments of their enterprises suffer from several issues that fall beyond the reach of data analytics. Interviewee #4, for example,

pointed to the incidence of unexpected factors that affect forecasting. Contemporary markets are prone to different trends and phenomena that are impossible to forecast, such as the global pandemic that broke out in 2020. Interviewee #1 shared that, despite the fact that their company's investments in data analytics aided financial forecasting, disruptive processes taking place in the business environment and consumer behaviours pose severe challenges to forecasting (this person was also the only one, who even mentioned artificial intelligence, AI). Thus, to a certain extent, the forecasting system has to consider several factors in a changing world that may weaken the motivation to perform forecasting:

The question is, always, how do you take into account in forecasts things that take place in the environment, how do you treat them and eventually forecast them. Surprisingly, huge changes may occur in how people start behaving in different situations where no historical data are used and nothing informs you. (#1)

Overall, it can be argued that data analytics still appears as an emerging technology, and enterprises seem to have reservations towards it.

#### 4. Discussion and conclusions

This study investigated the current state of financial forecasting in six Finnish enterprises and posed the following research question: How is the emergence of data analytics affecting financial forecasting in enterprises? The findings suggest that traditional forms of budgeting, which incorporate rolling budgeting, are still used in Finnish enterprises. In this light, traditional budgeting seems to have adapted slowly to change. Nevertheless, our interviewees indicated that extant forecasting processes have room for improvement. Forecasting systems tend to remain external to ERP systems; consequently, data remain susceptible to fragmentation. Enterprises also face difficulties in obtaining and accessing relevant, high-quality data. Due to prevailing weaknesses in extant systems, enterprises have the intention of developing their respective forecasting processes sometime in the future. The interviewees also shared that forecasting should better reflect the qualities of certain businesses and that sales forecasting is considered a primary area for improvement (cf. Wadan & Teuteberg, 2019).

Our findings suggest that enterprises have a genuine interest in data analytics, but a clear movement towards the transition is not yet taking place. Amongst all the companies, only one enterprise—operating in consumer business—is designing a financial forecasting system based on data analytics. Arguably, both technical and social factors hinder the inclination. First, the development of data analytics is considered an extensive investment, which requires improving organisational structures and processes first. Second, the interviewees believe that the models of data analytics are unable to fully capture the intricacies of business environments and that forecasting always remains susceptible to subjective understandings and interpretations. Based on such considerations, it can be argued that practitioners have a reserved and realist stance towards data analytics (cf. Granlund and Malmi, 2002; Sardo & Alves, 2018).

The findings above warrant the following conclusions. Although data analytics is considered a recent technological breakthrough, it has yet to be incorporated into financial forecasting due to the business environment and socio-technical restrictions in enterprises. Thus, the current study echoes the findings of Caesarius and Hohenthal (2018), who observed that incumbents face difficulties in materialising the potential behind data analytics in their operations. Our analysis further reveals that data access and quality concerns restrict enter-

prises from improving their financial forecasting processes (Huikka et al., 2017). Therefore, it seems that data integration remains an important issue, despite the fact that ERP systems are already established technologies in enterprises (Granlund and Malmi, 2002). Finally, our study suggests that data analytics, as a phenomenon, is easier to distinguish theoretically than empirically. On the level of empirics, it has become increasingly challenging to identify when traditional financial forecasting ends and data analytics-aided forecasting begins (Appelbaum et al., 2017; Bergmann et al., 2020; see also Lepistö, 2014). Moreover, it seems that quite many concepts, such as data analytics, predictive analytics, and business intelligence, refer to more or less similar phenomena (McAfee & Brynjolfsson, 2012).

Finally, our explorative study calls for more in-depth investigations not only on the design and implementation processes of data analytics to financial forecasting at the enterprise level but also on proactive business expertise and its development in activities at all levels of society (Kaivo-oja, 2021; Huhtasalo, 2022).

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## Appendix 1.

List of interviews, their organizational status, and their role in data analytics projects

INTERVIEW #	INDUSTRY TYPE	TITLE	RESPONSIBILITIES IN ORGANIZATION	ROLE IN DATA ANALYTICS PROJECT
1	b2c	Vice President, Analytics and Customer Data	Business analytics & AI projects	Forecasting projects, demand planning
2	b2c	Vice President, Group Business Control	Business controlling, BI reporting, owner of master data	Financial forecasts, annual budgets, rolling forecasts (monthly)
3	b2b	Senior Solution Consultant	Project manager	Project manager
4	b2b	Chief Financial Officer	Group-level financial mgmt	Long-range planning
5	b2b	Chief Financial Officer	Group-level financial mgmt	Real-time reporting for mgmt. group
6	b2b	Chief Financial Officer	Group-level financial mgmt	Total responsibility of group level forecasting and development projects



**Lahjoittaminen on tulevaisuuteen sijoittamista – Liikesivistysrahasto tukee apurahoin liikkeenjohtoa palvelevaa tutkimusta, koulutusta ja julkaisutoimintaa.**

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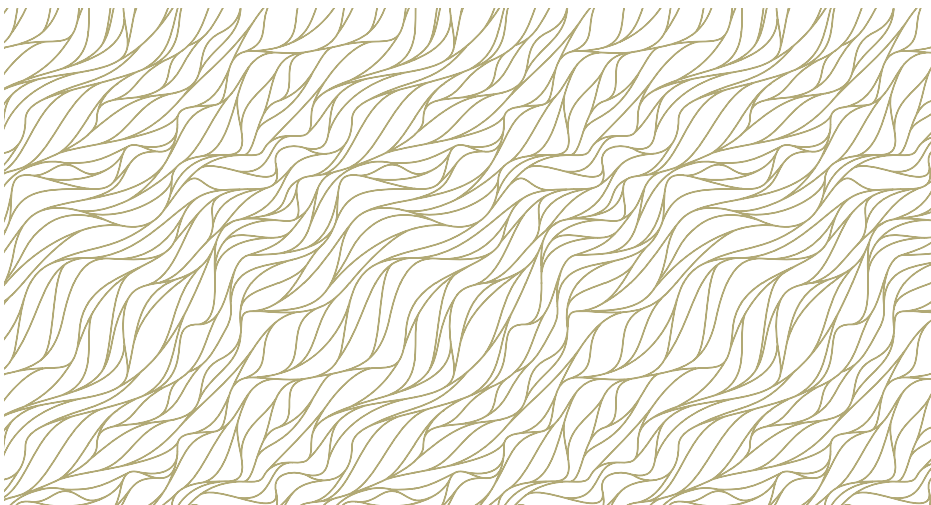
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